EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,860 Monday June 5 1989 D 8523A

BRITAIN
Laggards in the exports race
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More than 1,000 reported killed ● Party hails great victory over 'thugs and criminals' ● Workers call protest strike

World condemns Peking massacre

By Robert Thomson in Peking and Robin Pauley in London

CHINESE soldiers again turned Peking into a battle zone late last night with tanks firing in the streets as international condemnation of the massacre of unarmed demonstrators mounted.

The city's hospitals were overflowing. Dead and wounded pro-democracy protestors were ferried off the burning streets as the casualty list rose. The death toll ran into several hundreds, possibly over 1,000, although no accurate figures were available.

More than 100 tanks, rolling through the streets to reinforce troops in control of the city, were stoned by protesting youths, who had attempted to stop the military convoy with buses parked in the centre of the main roads and set alight.

There were unconfirmed reports that troops had gone to the university district to arrest students and that tear gas was used to disperse protesters. Access to the west of the city is now blocked by troop roadblocks and by the barricades set up by protesters to hinder troop movements.

Chinese workers have attempted to organise a strike for today to protest against the killings, but it is unlikely that many factories or offices will be open anyway. Protesters have been building stocks of molotov cocktails, and there were reports that workers have been gathering firearms.

The Chinese Communist Party released a statement congratulating the troops on a "great victory" in successfully quashing a "counter-revolutionary rebellion" orchestrated by "thugs and criminals."

But behind this rhetoric and the weekend's bloodbath the Chinese leadership is facing possibly its worst crisis since the revolution of 1949 and certainly since the disastrous days of the Cultural Revolution in the 1960s and 1970s.

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The leadership is deeply divided and so is the military. The massacre of unarmed protesters has made the country even more unstable than the tank convoys suggest and prolonged insurrection, if not civil war, cannot yet be ruled out.

Tiananmen Square, the focal point of six weeks of demonstrations for democracy and a change of leadership, was occupied by tens of thousands of troops last night. In addition to tanks and armoured personnel carriers, the hardware included anti-aircraft guns, suggesting leadership doubts about the loyalty of the air force in other parts of the country.

The assembled force is now many times larger than that needed to contain pro-democracy protesters. It is significant that Deng Xiaoping, the senior leader, had been disturbed in recent weeks by reports that a coup was being plotted against him. One report said the order was given by Deng from a hospital where he is allegedly being treated for cancer.

The country is still awaiting the formal purge of Zhao Ziyang, the Communist Party General-Secretary, who had shown sympathy towards the protesters, and the dismissal of the Defence Minister, Qin Jiwei, who was particularly reluctant to use troops against the pro-democracy protesters.

President George Bush of the US and Mrs Margaret Thatcher, the British prime Minister, were among the first leaders to protest. President Bush, deploring the massacre, said: "I hope that China will rapidly return to the path of political and economic reform and conditions of stability so that this relationship, so important to both our peoples, can continue its growth."

Mrs Thatcher said she was deeply appalled by the indiscriminate shooting of unarmed people.

Within the region, Mr Bob Hawke, the Australian Prime Minister, attacked the military crackdown and cancelled a goodwill visit to Shanghai by an Australian frigate.

Austria, France, Spain, Thailand, Holland, West Germany and Sweden all protested strongly and in Norway, China's ambassador was summoned to the Norwegian Foreign Ministry and handed an official protest note.

Union leaders in Hong Kong yesterday called a general strike and mass rally for Wednesday to protest against the bloody suppression of the students and Hong Kong students called for an economic boycott of China. More than 200,000 Hong Kong people, many wearing mourning colours of black or white, demonstrated against the massacre yesterday.

Taiwan put its armed forces on increased alert for fear China may take military action to divert attention from internal chaos.

Austria, France, Spain, Thailand, Holland, West Germany and Sweden all protested strongly and, in Norway, China's ambassador was summoned to the Norwegian Foreign Ministry and handed an official protest note.

Students try to protect a captured tank driver from a beating at the hands of angry crowds in Tiananmen Square yesterday

A city mourns as tanks take over

PEKING is a city in mourning but still defiant. Elderly men, black cotton patches sewn on white shirts, were cycling silently through burning, debris-ridden streets late yesterday, writes Robert Thomson in Peking.

On the fringe of Tiananmen Square, a pair of crushed spectacles lay in a pool of blood, and flames flickered from the body of a bus that had been gutted the night before and set alight by frustrated protesters.

At every intersection along Changan Avenue, which divides the city in two, buses that had been in the path of oncoming tanks were burnt out or torn apart. The debris formed a carpet of rocks and broken glass

Lines of troops, some crouched at the ready behind machine guns pointed down Changan, blocked off the square, which was occupied by dozens of tanks and, strangely, anti-aircraft guns, fuelling rumours that the troops fear they will be attacked by their own army or air force.

The crowds continued to show remarkable courage in the face of all this firepower. Soldiers were taunted, pro-democracy slogans were shouted, and stones were thrown even though the troops were out of range. Earlier in the day, about 30 people committing the same "crimes" were killed or wounded by bursts of fire.

Every time a helicopter gunship flew overhead, the crowd scattered, fearing another massacre. Youths threw rocks at the unreachable target. It was a potent symbol of the mismatch between angry people and heavily armed troops.

Citizens were reminded early today of the state of war by tanks doing circuits of the city – there seemed to be no purpose other than intimidation of a people already too frightened to leave their homes.

Protesters had re-erected barricades on Changan, and a lone pro-democracy banner,
Continued on Page 22

Tehran appoints Khomeini successor

By Victor Mallet
Middle East Correspondent

IRAN'S ruling clergymen yesterday appointed President Ali Khamenei as the country's leader, swiftly replacing Ayatollah Ruhollah Khomeini, the father of the Islamic Revolution who died on Saturday at the age of 86.

Ayatollah Khomeini returned in triumph to Iran from exile in 1979 when his supporters overthrew the Shah. He ushered in a period of religious fundamentalism dividing the Moslem world and antagonising the West.

The sudden promotion of President Khamenei, a Shia Moslem cleric, came as a surprise and it was not immediately clear whether the appointment was temporary or permanent. He is not among the half dozen surviving Grand Ayatollahs, Iran's most senior leaders, and it is unlikely that he will wield the full authority of his predecessor.

Iran's official media said the 83-seat Assembly of Experts, set up to pick a successor to Ayatollah Khomeini, had chosen Khamenei by a majority of more than two thirds.

President Khamenei is obliged by the constitution to step down this year after two terms in his current post. Iranians go to the polls in August to elect a new president and vote in a referendum which is expected to approve constitutional changes giving the presidency more executive power.

Hojatoleslam Ali Akbar Hashemi Rafsanjani, the speaker of the Iranian parliament and acting head of the armed forces, is so far the only candidate for the presidency, and has Khamenei's backing.

Together the two men would make a powerful combination: they are likely to promote a moderate foreign policy aimed at improving Iran's international image and at winning foreign assistance to rebuild the economy after last year's ceasefire in the Gulf war.

Ayatollah Khomeini – scourge of the US and of the conservative Sunni Moslem rulers of the Gulf states – apparently died of a heart attack after an operation 11 days earlier to stop internal bleeding. He is expected to be buried today or tomorrow.

The Iranian authorities yesterday decreed a 40-day period of mourning, including a initial week off work.

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Hundreds killed in Soviet rail gas explosion

By Quentin Peel in Moscow

HUNDREDS of Soviet schoolchildren and holiday-makers were feared dead or appallingly burned last night after a massive gas explosion wrecked two passenger trains simultaneously on the trans-Siberian railway.

President Mikhail Gorbachev, the Soviet leader, who flew to the scene, blamed the disaster on bad management and renewed a plea for "order and discipline in all spheres of life."

The accident happened where the main gas pipeline from the giant Tyumen field crosses the Ural mountains on its way to the European part of the Soviet Union and markets in the West. The death toll is feared to be more than 650.

Mr Gorbachev said a spark from the wheels of one of the trains apparently ignited gas which had leaked out and accumulated in a railway cutting.

In a stern rebuke he told Soviet television viewers: "One accident is happening after another. People are being lost. I have to say that, like many other cases, at the bottom of this lie bad management, poor organisation and disorder." Regulations had been broken and "we will draw the necessary conclusions," he said.

The Soviet authorities declared today a day of national mourning.

Soviet television showed Mr Gorbachev picking his way through the crash site, where railway carriages lay tossed, twisted and burned out. The railway line had been ripped up in the combined force of the explosion and crash. Broken glass from train carriages was found in a village 12km away.

Dozens of acres of forest were burned out in the explosion, and many of the dead suffocated from poisonous fumes in the train fire, rescuers said.

Tass, the official news agency, said that two trains carrying more than 1,200 passengers – hundreds of them schoolchildren going to and from summer camps on the Black Sea – were caught simultaneously going in opposite directions in a huge explosion of natural gas.

By last night only 400 of them, including the dead, had been accounted for. Soldiers were scouring the nearby woodlands and mountains "in the hope that some passengers were able to escape from the whirlwind of fire," the agency said.

A local journalist in Chelyabinsk, Mr Vitaly Cherepanov, told Reuters news agency last night that at least 650 passengers were feared dead. He said the accident happened in a ravine, and the accumulated condensed gas left little air for survivors.

The explosion derailed one train, sending it crashing into the second which then caught
Continued on Page 22

Moscow parliamentary bodies to bring KGB under scrutiny

By Quentin Peel in Moscow

THE Soviet Union's new standing parliament is to set up high-profile committees to oversee Government policy – including one which will cover both defence and state security and for the first time bring the KGB, the Soviet security police, under a degree of public scrutiny.

The committees will include members of both the Supreme Soviet – the indirectly-elected standing parliament – and the more radical, directly-elected Congress of People's Deputies. The new Congress last week heard unprecedented public attacks on the powers of the KGB during early sessions carried by television to enormous audiences across the country.

A proposal for a committee which would oversee only the KGB was rejected as unnecessary, leaving its functions linked with external defence – an evident concession to its supporters.

The precise powers of the new committees have yet to be set out; how openly they will sit, and whether they will have substantial independent research staffs to analyse and criticise Government policy, like those of the US Congress.

That is a proposal which is likely to be supported by Dr Yevgeny Primakov, the foreign affairs analyst who was elected on Saturday as the first chairman of the Soviet of the Union, one of the two chambers of the Supreme Soviet.

Both President Gorbachev and Dr Primakov stressed the need for much greater separation of executive and legislative authority in the Soviet system.

The Soviet of the Union, with 271 members, is the chamber dealing with all-USSR questions, while the Soviet of Nationalities, expected to meet this afternoon, is supposed to deal with relations between the 15 constituent republics.

The key committees will involve both chambers, covering foreign affairs, the legal system, economic reform, civil rights, education, health and the environment, as well as defence and state security.

The first meeting of the Soviet of the Union on Saturday proved to be a far more sober affair, in line with its less radical membership.

An opinion poll at the weekend showed how Soviet citizens have been galvanised by the public debate in the Congress – and how much more radical they are than many of their deputies.

The Institute of Sociology of the Academy of Science reported that more than three-quarters of the adult population in Moscow, Leningrad and Kiev, and a remarkable 93 per cent in the southern republic of Georgia, were attempting to follow the live broadcasts of the Congress continuously.

A second question in the poll showed that a large minority believe that the current level of defence cuts proposed by Mr Gorbachev – Rb10bn ($15bn) or 14 per cent of the budget over the next two years – is inadequate.

World News

Floods leave 164 dead in Sri Lanka

At least 164 people have been killed by floods and landslides in south west Sri Lanka caused by heavy rains over the past few days, which have left more than 100,000 homeless.

Polish vote

Poles flocked to vote in parliamentary elections giving them a choice for the first time in more than 40 years of Communist rule. Page 22

French residence

The French Government has eased the rules governing foreigners resident in France through a new law. Page 22

Soviet bugging claim

The Soviet newspaper Izvestia said high-frequency radio waves used in bugging devices may have killed two Russians in London. Page 14

UK union merger

Transport and General Workers Union, Britain's largest union and MSF, the sixth largest union, are to open merger talks. Page 9

Afghan attack

At least 14 people have been killed in rebel rocket attacks on two Afghan cities.

Libyan forces gather

Libya has gathered troops and is preparing to attack Chad through Sudan.

Italian prison fire

Eight prisoners and two female warders died when fire broke out at a women's jail in Turin in northern Italy.

SA writer killed

South African writer and editor Richard Rive, whose works depicted the plight of Coloured people under apartheid, was found murdered in Cape Town.

West Bank clashes

Three Palestinian guerrillas and an Israeli soldier were killed in a clash on Israel's northern border, the fourth such battle in just over a week.

Rose theatre appeal

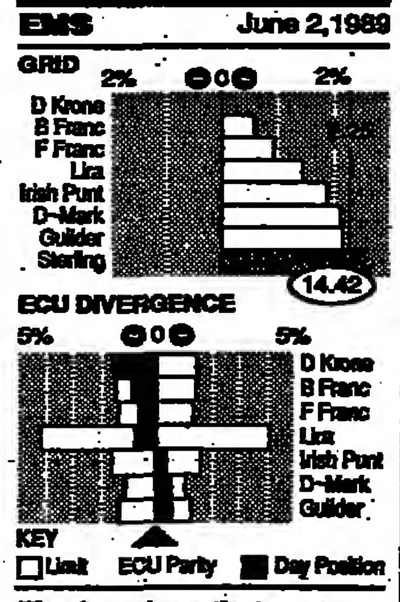
Campaigners fighting to save the Elizabethan Rose Theatre in South London launched an appeal in the United States they hope will raise millions of pounds.

Business Summary

Opec nears oil production agreement

Opec oil ministers in Vienna appeared to be moving towards a new production agreement to lift production by at least 1m barrels a day. Page 22

EUROPEAN Monetary System: Interest rates continued to rise in EMS countries last week in response to the dollar's continued strength. The Danish krone remained very weak, and was trading close to its divergence limit from central rates. The softer tone came despite a widening of interest rate differentials in favour of the krone against the D-Mark.



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency, defines the cross-rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's move from the "central rate" against the European Currency Unit (ECU), a basket of European currencies.

EUROPEAN Commission is likely to call on Italy to close its Bagnoli steel smelter near Naples by March. Page 22

MOET HENNESSY-Louis Vuitton, the French champagne and cognac and group, is expected to reappoint Bernard Arnault as chairman at a shareholders' meeting despite bids to oust him. Page 26

BERGEN Stock Exchange signed a general agreement with the Norwegian Options Market (NOM) clearing a way for options trading. Page 26

EUROPEAN airlines have expressed an interest in buying a stake in Mexicana, the Mexican flag carrier. Page 26

PORTUGUAL intends to denationalise state-run corporations created in the 1975 revolution. Page 8

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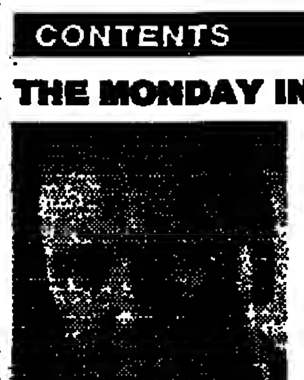

Rand Araskog, chairman of ITT, sometimes gives the impression of a man on a moral crusade, which could hardly be in sharper contrast to the image ITT projected to the world 15 years ago when it was embroiled in damaging scandals Page 40

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IRAN AFTER KHOMEINI

Doubts cloud future for Tehran

The government is vulnerable, Scheherezade Daneshkhu writes

AYATOLLAH Khomeini's death came at an awkward moment for the Iranian leadership. He died just as the Government was publicly debating the question of who should succeed him, thus making the task exceptionally difficult for the men responsible for filling the void.

The qualified choice of President Khamenei, who is not high-ranking in clerical terms, as Khomeini's replacement appears to have been a precipitate measure taken at an emergency meeting of the Assembly of Experts, the 83-man body established to choose Khomeini's successor.

The announcement will have been designed to end the uncertainties regarding the succession. Khamenei has been President since 1980 and is a respected figure who in recent years has appeared to support firmly Hojatoleslam Ali Akbar Hashemi Rafsanjani, the country's Majlis (parliamentary) Speaker and acting commander-in-chief.

The move does not however, solve two fundamental and inter-related problems caused by the absence of Khomeini's dominant personality and unquestioned religious leadership within the country.

One is the question of who is to hold effective, as opposed to titular, power in Iran. The other concerns the future of the Islamic state as an ideological entity.

When Ayatollah Khomeini occupied the position of spiritual leader, outside and above the realms of temporal power, the day-to-day administration of the country rested with the president and the Majlis, but Khomeini's authority meant that the last word was always his. This dual power structure has always been a problem.

Without him at the helm, the government is vulnerable. Ayatollah Khomeini's designated successor since 1985, Ayatollah Hossein Ali Montazeri, who was forced to resign only 10 weeks ago, was accused by Ayatollah Khomeini and his son Ahmad of yielding to liberal and dissident tendencies.

Soon after his resignation, the authorities took steps to change the country's first Islamic constitution. A 25-man committee is now working on the constitutional revisions. A referendum approving these changes – as well as presidential elections – is due to be held on August 18.

Under Iran's constitution, the country's spiritual leader is the representative of the twelfth Imam of Shiism who disappeared in the ninth century. As this representative, Ayatollah Khomeini ensured that his power would be extended firmly into the political and well as religious sphere. He has, in effect, ruled with absolute authority.

Such absolutism has circumscribed the powers of the other five Grand Ayatollahs by preventing them from airing their views on the role of the spiritual leader. Ironically, this has led to a situation in which those who are qualified to replace Ayatollah Khomeini in religious terms have been effectively eliminated for political reasons.

Most of the Grand Ayatollahs disagreed with Ayatollah Khomeini over the degree to which the clergy should be involved in political affairs. Grand Ayatollah Shariatmadari, a particularly vocal critic of the nature of Islamic rule under him, learned to his cost the dangers of dissent when he was stripped of his mantle of Grand Ayatollah before his death in the early years of the revolution.

Apart from Montazeri, who still commands significant support among the people, only Grand Ayatollahs Golpayegani and Marashi Najafi have participated in the Islamic Republic, although at some distance. Both sent messages of condolence broadcast by Tehran Radio yesterday.

The spiritual leader must, by the terms of the constitution be an "honest, virtuous, well-informed, courageous, efficient administrator and religious jurist, enjoying the confidence of the majority of the people as leader".

The qualified choice of Khamenei appears to have been a precipitate measure designed to end uncertainties surrounding the succession. The move does not solve two fundamental problems: one concerns who is to hold effective power and the other the future of the Islamic state

Although Khamenei has been named as Khomeini's replacement, he appears not to have been given Khomeini's full spiritual powers: he was not referred to as the *vali-e faqih* (the vice-regent of the jurisconsult). Given the fact that the appointment also appears to be temporary pending the constitutional changes, the whole issue of the spiritual leadership of the country is still open.

The move may not solve the problem of dual power centres, but it does for the time being indicate a considerable coup by Rafsanjani since he and Khamenei are political allies. Rafsanjani is himself the only declared candidate for the August presidential elections. The role to be played by Khomeini's son Ahmad, behind whom it is thought radical groups were trying to make a bid for power, is unclear.

From the end of last year, Iranians have been acutely aware of the problem posed by the lack of qualified candidates for the spiritual leadership. In several speeches earlier this year Khomeini alluded to the fact by hinting that administrative and management abilities could compensate for lack of religious learning. Both Khamenei and Rafsanjani supported this position.

The option of abolishing the position of spiritual leader altogether is not an attractive one for Iran's clerics. It would undermine the ideological basis of the country's political system.

But if that step is taken and Iran is to be ruled by efficient managers rather than men chosen purely for their religious credentials, the question is bound to arise eventually as to why the country should be in the hands of the clergy in the first place. This will beg the question of how Islamic Iran can hope to extend or exert its ideological influence over other Shia groups and countries in the future.

By choosing the President, the government has presented a united front in the early days of the post-Khomeini era. As Khamenei declared on another occasion: "The maintenance of the system is the highest aim". There were rumours yesterday that dissident groups in the Revolutionary Guards and in the provinces are attempting to take advantage of Khomeini's death.

It seems unlikely that the major ideological differences within the leadership will surface immediately. But the future is clouded by doubts that Khamenei will be able to emulate the Ayatollah who mastered the art of acting as the final arbiter. The possibility that rival factions will be unrestrained remains therefore a real one.

The main battle lines are drawn between those, like Rafsanjani and Khamenei, who support the idea of a centralised administration and others, such as the Interior Minister, Hojatoleslam Ali Akbar Mohtashemi, who would prefer the maintenance of a fervent revolutionary spirit in Iran, which would include diffused centres of power and a commitment to the export of revolutionary ideology.

Rafsanjani's ideas appear to be gaining the upper hand. The proposed changes to the constitution - which are almost certain to give the President more power - have been made at his instigation, and the Majlis is in the final stages of approving his plan to have the Revolutionary Guards absorbed into the Defence Ministry.

The Islamic Republic has had to face two major tests of endurance. The first came with the humiliating acceptance of a ceasefire in the war with Iraq last year, a stepdown which was a bitter pill for Khomeini to swallow. The second and more serious test is the death of Khomeini himself and the uncertain legacy he has left his country.

Khamenei: move to end uncertainty

Clerics and politicians jockey for advantage

Khamenei's supporters and opponents will be eager to make their mark, **Our Middle East Staff** reports

IRANIAN clerics were quick to choose President Ali Khamenei yesterday to replace Ayatollah Ruhollah Khomeini, who died on Saturday, but they will sorely miss Khomeini's guidance. His various supporters and opponents, from radical clergymen to ambitious politicians, will be eager to make their mark.

Even in the final months of his life Khomeini was the undisputed leader of the Iranian revolution. He was called on to mediate in doctrinal and political disputes among his followers and to approve momentous decisions, such as the one which put a stop to the war with Iraq in August last year.

President Ali Khamenei, 49, is the new leader of the Islamic republic. He is constitutionally obliged to step down as President after two terms – hence the forthcoming presidential elections in August – and will therefore have all his time for the new job.

Khamenei, with his power base among the bazaar merchants, broadly agrees with Hojatoleslam Ali Akbar Hashemi Rafsanjani in supporting a moderate foreign policy and has backed him in his bid for the presidency in the August elections. The two allies are likely to be a powerful combination.

Unlike **Rafsanjani**, Khamenei has in the past tended to side with economic conservatives opposed to too much state intervention in the economy, although in recent years he has played down his bazaar connections and even advocated increased state control.

After Ayatollah Khomeini himself, the canny and popular **Hojatoleslam Ali Akbar Hashemi Rafsanjani**, 54, has been Iran's most powerful political figure, and there is every reason to suppose that he will try to remain so.

He is acting commander-in-chief of the armed forces and the speaker of the Iranian parliament, and he is so far the sole candidate for President in the elections to be held in August.

If, as expected, the President is given increased executive powers and the post of Prime Minister is abolished, Rafsanjani may join forces with Khamenei or – if things sour between them – attempt to dominate policy-making at the expense of the spiritual leader.

He is regarded as a pragmatist in the West because he favours improved relations with the outside world as Iran attempts to rebuild its economy and because he apparently persuaded Khomeini to accept the Gulf war ceasefire.

But he happily espouses radicalism when fighting domestic political battles and followed Khomeini's lead when the Ayatollah ordered the execution of Mr Salman Rushdie, the British author.

Among those jostling for position after Khomeini's death is his 43-year-old son **Hojatoleslam Ahmad Khomeini**, who is backed by the radicals and opposed to Rafsanjani.

As the Ayatollah's private secretary, he had unique access to his father and a corresponding degree of influence – he is to read Khomeini's will – but he is a junior cleric who lacked the necessary religious or political credentials to make a lone challenge for the leadership.

Ahmad Khomeini, once a keen footballer, has only periodically taken an active role in politics and has re-emerged as a force to be reckoned with in the past two years.

A proponent of socialist economic policies and a champion of the poor, he has unofficially supervised state television and radio and the two large-circulation daily newspapers in Tehran, *Etelaat* and *Kayhan*.

Post-Khomeini Iran will be a test for Ahmad and it is open to question whether he will survive politically without his father's protection.

Unlike Rafsanjani and Ahmad Khomeini, **Ayatollah Hossein Ali Montazeri** is a 66-year-old Grand Ayatollah with strong religious credentials. A pupil and once a close friend of Khomeini, Montazeri was chosen in 1965 as his successor.

But he was forced by Khomeini to resign in March, accused of being duped by liberals and dissidents, and it was this which left the succession in turmoil until Khamenei was chosen.

Since then he has been engaged in a dispute, by correspondence, with Ahmad Khomeini. In some ways a mild-mannered man, Montazeri wanted the Islamic revolution to have a more human face and has condemned its worst excesses.

Hojatoleslam Ali Akbar Mohtashemi, the 43-year-old Interior Minister, is one of the most prominent hardliners in the Iranian government and is responsible for much of its security apparatus. He is thought to support Ahmad Khomeini.

As ambassador to Syria from 1981 to 1985, he was linked to the Lebanese Shia fundamentalist group Hizbollah.

West and Arab foes greet death with relief and trepidation

By Victor Mallet, Middle East Correspondent

AYATOLLAH Khomeini's demise may be mourned by radical Shia Moslems, but the Western and Arab countries to which he tried to export the ideals of the Islamic revolution are greeting his death with quiet satisfaction, albeit mixed with trepidation about Iran's uncertain future.

There was little grief in the US, which has not forgotten how it agonised about the fate of 52 American hostages seized at the US Embassy in Tehran in 1979 until their release after more than a year in captivity.

"With his passing we hope Iran will now move towards assuming a responsible role in the international community," said President George Bush yesterday.

"We will carefully watch the situation," a Japanese government official said.

In Britain, the Foreign Office made no immediate comment and the author Mr Salman Rushdie remained in hiding from the death sentence for blasphemy issued by Ayatollah Khomeini before he died.

Japan and the West have been anxious to win some of Iran's oil revenues by taking part in post-war reconstruction projects, but Iran's political confusion and its reluctance until now, to borrow abroad have made life difficult for businesses seeking big contracts.

Saudi-Iranian negotiations for the admission of Iranian pilgrims to Saudi Arabia for next month's pilgrimage to Mecca have broken down, and it is possible that none will go.

In Jerusalem, the Foreign Ministry said Israel hoped for an improvement in Iran's attitude to Israel and the West.

In most of the Arab world, the news of Khomeini's death was treated yesterday with the usual caution. Iraq reported it without comment and other Arab countries followed suit.

Arab states ruled by Sunni Moslems, especially Iraq, Saudi Arabia, Kuwait and Bahrain, have long feared the destabilising effects of Khomeini's Shia radicalism on their own Shia populations.

In Beirut, Lebanese Shia Moslems mourned the Ayatollah's death and members of Hizbollah made public declarations of grief in their mosques.

"Imam Khomeini's death was one of the most devastating disasters to have struck the Islamic nation," said Sheikh Mohammed Hussein Fadlallah, Hizbollah's spiritual guide.

By contrast, Khomeini's opponents around the world were almost jubilant.

Mr Masoud Rajavi, leader of the People's Mujahedin, called Khomeini the "most notorious dictator of modern times" and called on Iranians to confront the régime with all available means. "This is a very important turning point," he said. "Iran is now in a state of extreme agitation."

Iranian monarchists, including Reza Pahlavi, the son of the late Shah of Iran, predicted confusion.

FINANCIAL TIMES

Published by the Financial Times (Europe) Ltd., Frankfurt Branch, represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, M.C. Gorman, D.E.P. Palmer, London. Printer: Frankfurter Societaets-Druckerei-GmbH, Frankfurt/Main. Responsible editor: Sir Geoffrey Owen, Financial Times, Number One Southwark Bridge, London SE1 9HL.

FINANCIAL TIMES, USPS No 190640, published daily except Sundays and holidays. US subscription rates $365.00 per annum. Second-class postage and at New York NY and at additional mailing offices. POSTMASTER, send address change to: FINANCIAL TIMES, 14 East 60th Street, New York, NY 10022.

Financial Times (Scandinavia) Ltd, Ostergade 44, DK-1100 Copenhagen-K, Denmark. Telephone (01) 13 44 41. Fax (01) 935335.

Deng passes into history with blood on his hands

The economic pragmatist praised in the West will be remembered now for mayhem, writes Robert Thomson

DENG XIAOPING, the paramount Chinese leader, and a man very conscious of his place in history, has often said that "bloodshed" is a necessary tool in controlling opposition. The economic pragmatist who won accolades from the West for freeing the price of vegetables and encouraging small businesses will now be remembered most for the bloodshed of the past two days and the chaos that is to come.

Today, the Chinese Communist Party regards the hundreds of deaths and the clearing of Tiananmen Square in Peking over the weekend as a victory against counter-revolution. The hard-line faction that won power from the more reasonable men in the party a month ago seems to feel it has taken the necessary steps to maintain control, and the violence and bloodshed are justified.

However, there are still among the party leaders men who will be disgusted by the violence; it is they who will be able to avoid complete disorder. The military, too, has been generally opposed to the use of violence to quell the pro-democracy protests. Last week, six of the seven military regional commanders refused to attend a meeting called in Peking to plan a strategy of attack against the protesters.

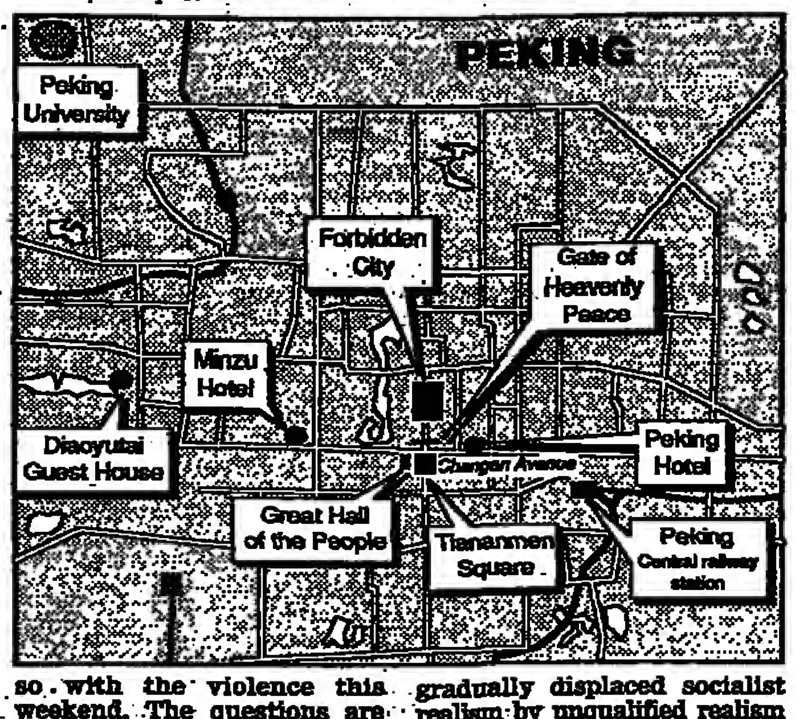
The military is the determining force of China's future. It did the party's dirty work – having been founded to serve the people, it was called on to shoot the people.

The hard-line party faction, represented by Deng, Li Peng, the Prime Minister, and President Yang Shangkun, was already hated by the public. For the military, that hatred is a new thing.

The foregoing respect for the military was shown in the Friday night farce when about 10,000 apparently unarmed peasant troops were sent on an ill-conceived mission to take Tiananmen Square. When they were turned back by the gathered masses, the soldiers were applauded, and given cigarettes and soft drinks.

Yesterday, by contrast, protesters were throwing stones at troops and there were unconfirmed reports of guns being distributed among youths in the west of the city. There were also reports of troops firing at troops.

It is the way of modern Chinese history that student protest movements are condemned at the time, but with the rise of a new government or party faction, are re-assessed and regarded as heroic. This was so in 1976 with the Tiananmen Square protests that led to the rise of Deng Xiaoping, and it will be so with the violence this weekend. The questions are when and how.



In recent weeks, the hard-line alliance of Deng, his elderly comrades of the Long March and, most important, Yang Shangkun, himself a general and with family ties to the generals involved at the weekend, had seemed fragile.

Their emotional and ideological statements were too far-fetched in a China that has gradually displaced socialist realism by unqualified realism in the past decade. Diplomats thought it could last only weeks and optimistically presumed that Zhao Ziyang, the purged party chief, could make a triumphant return.

In the short term, the violence will push the faction fight one of two ways, depending on the depth of support for the hard-liners. Deng and his friends could take an even harder line to control the inevitable outbreaks of unrest and lock themselves into the role of military dictators. Acts of violence will provoke acts of retribution will provoke acts of violence – and so on. Or, the more reasonable men will prevail and an attempt at reconciliation with the masses will be made.

That Deng has taken several weeks to dispose of Zhao as party chief is evidence that these reasonable men exist.

The Chinese leader has been unable to stack either a meeting of the politburo or the larger central committee to go through the motions of exiling Zhao, who is accused of conspiring against the party and allowing the spread of bourgeois ideas.

The depth of reasonableness is an unknown variable – the economically reasonable Deng, for example, can be politically unreasonable.

The present leaders must be held ultimately responsible for a series of decisions born of a sense of insecurity that has also led to the return to fashion of the fortress mentality.

News broadcasts and newspapers have returned to gross distortion for the sake of effect, although the Chinese are now better informed and know when they are being fed rubbish.

In recent days, official coverage of the staged demonstrations supporting the "four cardinal principles" and other conservative ideas has been treated as a joke, albeit a sick one. One Chinese man said he would divorce his wife if she took the 20 yuan given to each of the "protesters" by local officials; she said that she would take the money and then quickly leave a march to go shopping.

Effigies of the of the dissident astrophysicist Fang Lizhi have been set alight by people who have no idea of who he is and by people who have difficulty remembering the cardinal principles.

The long list of stupid decisions, many made in the name of Li, starts with a harsh editorial on April 26 in the People's Daily, the party newspaper, which fanned a waning student protest movement. Then there was the hasty decision to impose martial law just over two weeks ago – retired generals signed a letter opposing the declaration and, despite 200,000 troops on its perimeter, Peking went its own way.

After that came the decision to send in the peasant troops on Friday night. Judging by conversations with them, they had been deceptively briefed about the situation in the centre of the city. Most of those troops had jogged or marched for four hours to get to Tiananmen, so were hardly ready to face thousands of protesters.

Then the avoidable carnage of the past two days. Illogical decision bred illogical decision. Yet the masses, offended as they have been and outraged as they now are, do not have the means to remove the hard-liners. The People's Liberation Army, or factions within it, has the means to do so, after the brutality and loss of face of recent days, it could have the inclination.

The military is split three ways, with a faction supporting Yang and his relatives, a faction of older generals who disapprove of Yang, and a faction of more professional and technocratic generals who have risen to their rank on merit.

Two of those three factions could oppose Deng and Yang.

'Near me two youths crumpled'

A FEW workers and students stood on the fringe of Tiananmen, staring across at the mass of troops and tanks gathered under the portrait of Mao Zedong in readiness for the final sweep of the square. In a night of violence, of ebbing and flowing tension, this was one of the strange calm moments. There were bursts of gunfire, but, as was sometimes the case, the ammmunition was not live, reports Robert Thomson.

Having been through extreme brutality, we were all oddly complacent, chatting about the end, for now, of the democracy movement and the senselessness of the force used to crush it.

When the next round of gunfire began, there was no panic. Then came the sound of bullets hitting concrete blocks and the twisted metal that littered the square. Two youths crumpled within a few yards of me. The firing stopped. The youths lay motionless.

I don't know whether they were dead. I only know they were hit, and, when their comrades carried them away, they were not moving – shot by the People's Liberation Army in the shadow of the Great Hall of the People.

In the heart of the square, the core of pro-democracy protesters began singing the national anthem, competing with an official broadcast near the Great Hall warning that the troops had been called in to "suppress a counter-revolution". Soon after, more gunfire – some live, some not – was sprayed into the students and workers, who took a quick vote and decided to walk slowly and with dignity out of the square.

After more than a month of demonstrations, surrounded by their own army, about 50,000 protesters left behind their shantytown of democracy and the "goddess of democracy" – the statue that had much offended the Communist Party elders – and walked under the banners of their university or the slogan-emblazoned banners. "The people's government should serve the people," was one message.

Then the tanks and armoured personnel carriers moved slowly down the square, crushing the tents in front of them, as burning buses and one burning armoured vehicle cast a glow on the face of Mao Zedong, which stared over a Tiananmen (Heavenly Peace) that had become a battleground.

Panicky and inept Chinese leaders had used tens of thousands of troops and, probably, hundreds of deaths to end what had been a non-violent protest that could have been settled with a short conversation. The troops won no victory, they did not defeat the students' ideas. They did radicalise a passive group of protesters. They did violate the city of Peking and deeply scar the Chinese psyche.

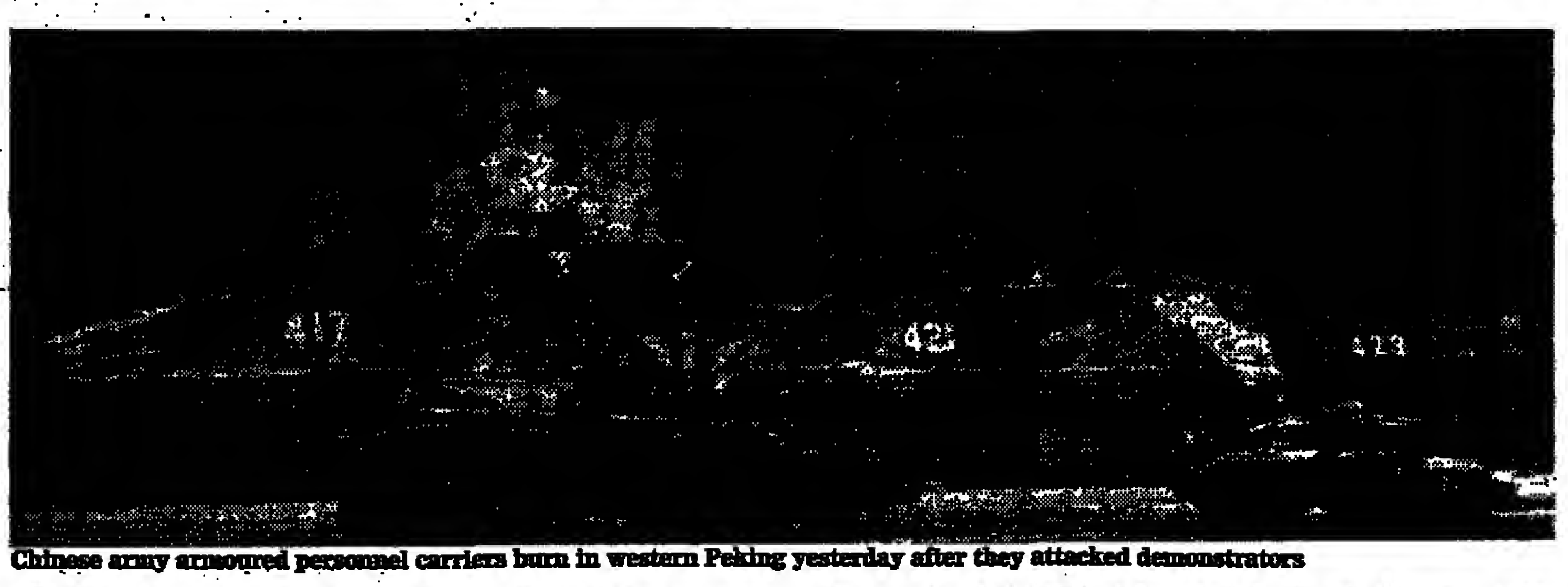
One had to wonder, in the heavy blue of the early dawn as the murky figures of soldiers flooded into the square, how these troops had been briefed. Perhaps they were told that a small group of conspirators, the "blackhands" as premier Li Peng calls them, had somehow incited millions to "counter-revolution".

The main column, with 70 or so tanks and armoured cars, and a convoy of troop trucks, was clearly told to use whatever means to take the centre of the city – those means were bursts of machine gun fire into stone-throwing crowds, beating unarmed and retreating protesters with clubs, and a mass assault which left buses and trucks ablaze from one end of the city to the other.

Yet the troops entering from the south of the city were not so well-prepared. They were raw recruits, peasant boys, who had been told to hold the rear, while the main force drove triumphantly into the square. As they approached the square from behind, they were pelted with rocks, but kept jogging on, ignoring their mates felled by stones. They were obeying orders.

Unconscious troops were then treated by the protesters who had stoned them; they were carried into houses, while those dazed and left behind were surrounded by residents, who repeatedly asked: "Why are you attacking the Chinese people? We are all Chinese. Don't hurt the Chinese people." Chinese children are taught to love "the motherland, the party and the army". For the people of Peking, much of that love has been beaten into hatred.

As a red sun rose to the east of the city, and buses were still ablaze, as far as one could see along Chang An Avenue, that hatred was turning passing middle-aged men and women into volatile mobs. The windows of empty buses were randomly smashed, and the "great chaos" that has much obsessed paramount leader Deng Xiaoping in the past week had come to China.


Chinese army armoured personnel carriers burn in western Peking yesterday after they attacked demonstrators

Thousands protest in Hong Kong

By John Elliott in Hong Kong

SEVERAL hundred thousand demonstrators yesterday marched through the centre of Hong Kong for the third Sunday in succession, parading a new-found political fervour which will change the mood of the colony as it prepares to return to Chinese sovereignty in 1997.

Many of the marchers wore black and white clothes, symbolic of death and mourning. They carried banners streaked with blood-red Chinese characters which called for the downfall of Li Peng, China's Prime Minister, and condemned "killer warlords" and an army which "turned on its own people".

There is to be a general strike (partial so as not to harm the local economy) on Wednesday, which has been declared a day of mourning and demonstration to perpetuate the cause of the crushed democracy movement of Tiananmen Square.

Some student organisations have started calls for an economic boycott of Chinese organisations in Hong Kong, including withdrawal of funds from Bank of China branches.

Some senior political figures are to boycott talks with China on the basic law under which Hong Kong is to be governed after 1997, and there are also calls for the UK to introduce full democracy in the colony immediately.

These developments show that the events in Peking have had a direct impact on Hong Kong, where they have politicised a previously apathetic population and have strengthened demands of leading liberals for the introduction of full universal franchise now.

"The British government should immediately introduce full democracy in Hong Kong, even if China does not agree, because the Peking government which negotiated the 1997 handover is no longer in power," said Mr Martin Lee, a leading lawyer and liberal campaigner. With another prominent liberal, Mr Szeto Wah, Mr Lee decided yesterday to boycott meetings of the Peking-based basic law drafting committee, of which he is a member.

Mr Richard Margolis, UK Foreign Office deputy political advisor to the Hong Kong Government at the time of the negotiations and now a local financial analyst, joined the demonstration. He said talks with Peking on the future of Hong Kong should be "put in suspense".

Members of the colony's executive and legislative assemblies are to meet this morning, but it seems unlikely there will be any mass boycott of links with Peking because of the need to keep contacts.

Unilateral independence for the colony, or the UK reneging on the 1997 deal, are not regarded by officials as credible options because the sovereignty agreement is registered with the UN and because Hong Kong is economically and militarily vulnerable to Peking.

However, talks on the basic law and other 1997 developments will be delayed because of the administrative inertia likely to overtake Peking. The main indication from Peking that the British and Hong Kong governments will seek is one that the 1997 agreement will be fully honoured, including China's pledge that Hong Kong will be allowed a "high degree of autonomy" for 50 years.

PM backs colony

THE BRITISH Prime Minister Mrs Margaret Thatcher said yesterday she was shocked by the Chinese army's attack on students massed in central Peking, and vowed Britain would stand by its commitment to a secure future for Hong Kong, agencies report.

"I understand the deep anxiety presently felt by people in Hong Kong and admire their steadfastness in the face of these latest tragic events," she said in a statement. "Britain will continue to stand by its commitment to a secure future for Hong Kong. We are confident that the Chinese government also will continue to abide by their obligation."

France, West Germany and the US led the rest of the world's condemnation of the events in Peking.

President Lee Tenghui of Taiwan described the massacre as "mad" and ordered his armed forces to be vigilant.

There was no official reaction from Moscow yesterday. President Mikhail Gorbachev, when in Peking about two weeks ago, praised the authorities' intended "dialogue" with the students. His warmest words were for Zhao Ziyang, his counterpart as Chinese Communist Party leader, who now appears to have been ousted.

Ruthlessness grew as competence slipped at the top

Colina MacDougall charts China's long march from attempted widespread reform to bullets in the night

IT SEEMS scarcely believable that, 40 years after the present regime in China came to power and when, for the first time in nearly 100 years, the country seemed on the path to modernisation, the country should be on the verge of civil strife.

The pro-democracy demonstrations of the past three weeks have shown the hate and contempt in which the three architects of the massacre, Deng Xiaoping, the Chinese senior leader, President (and ex-general) Yang Shangkun and Prime Minister Li Peng were held.

What makes the situation even more remarkable is that Deng has been the architect of China's economic reform, not planning the detail but at least encouraging reformers such as the defeated part boss Zhao Zhiang and his think-tanks to introduce liberating changes.

But, when Deng saw how economic reform seemed to lead inexorably to demands for political reform, he called a halt.

Since coming to power in 1978 Deng has had to balance the demands of the hard-line old guard with the need for new policies to alleviate China's poverty. The first major victim was party general secretary Hu Yaobang, in 1987. His successor Zhao had fought a losing battle to keep economic reform on the road.

The power struggle among China's leaders during recent weeks has been matched by deep splits in the armed forces, important sections of which were clearly not prepared to carry out a massacre of unarmed fellow citizens.

It was the 27th Army which carried out the massacre. It is seen as Yang Shangkun's own. Its men are older, tougher and evidently more ruthless than the country boys who made up the units turned back by Peking crowds the day before. Yang himself, now in his early 80s, has long military service behind him.

Yang was thought to have won the president's job in haggling with Deng when Zhao Ziyang, at that time Deng's protégé but now the ousted general-secretary of the Communist Party, was promoted to a key military post. Zhao has not been seen since his sympathetic public visit to the students in mid-May.

Yang Shangkun's younger brother, Yang Baibing, is chief of the army's political department – said to be the unit which has been giving the orders in recent weeks – and Chi Haotian, the chief of staff, is rumoured to be his son-in-law. At the height of the student protests two weeks ago, the army high command was labelled the "Yang Family Village" in posters seen all over Peking.

Even so, the army has been seriously disunited during this latest crisis. Qin Jiwei, Defence Minister and former commander of the Peking Military Region, has been widely reported sacked because of his opposition to Deng.

Two weeks ago, a group of elderly and once-influential generals made public statements dismissing some of Li Peng's more extreme pronouncements and calling the student movement "patriotic". The commander of the 38th army, posted south-west of Peking, is reported as having refused to send his troops against the students, and was said to have resigned or committed suicide.

The Peking Military Region was the last of the country's seven such regions to fall into line with support for the conservatives. Two weeks ago Deng was reported to have made a quick trip to Wuhan in central China to exact loyalty from the other six.

Peking followed reluctantly within a few days. However, in what is close to being civil war, such loyalties will be severely tested.

The conservatives may have triumphed but it seems almost impossible that their victory can last. The protests started in Peking, and have had the most publicity being at the seat of government and the place where foreign journalists are concentrated, but almost all China's provincial capitals have been riven by demonstrations over the past few weeks against the hard-liners.

It had been unimaginable that China's leaders, however hated, could be brought down if they controlled enough military might. In this situation, though, the students were seen as heroes by the people of Peking.

"They are suffering for us workers", said the crowds in the streets. "We have families who are dependent on us, we cannot risk our jobs, but they are putting their lives on the line". They were welcomed for bringing a lost sense of morality back to what had become a shockingly corrupt political arena.

The question now is: will this be enough? The Peking students have called for a general strike. Passions are running high enough in the capital for this call to succeed, but troops are still on the streets.

Unarmed resistance is unlikely to be enough to face down one of China's most ruthless – and at the same time incompetent – groups of leaders. They have backing from many middle-rank party members and bureaucrats who see their sinecures threatened by the demands for reform made by the students in recent weeks.

However, among younger and more thoughtful people in China, there has been a strong constituency for reform. Despite recent grumbles about inflation and similar problems, the gradually increasing prosperity of the country has been popular.

This prosperity is now under severe threat as a result of the extreme reaction of the hardliners, who will have driven away foreign investment, foreign tourism and foreign loans.

Also, a huge question-mark now hangs over the future of Hong Kong.

Eight weeks ago all this would have been inconceivable. While the economic reform was in growing trouble as a result of the hardliners' measures to clamp down on the high inflation of last year, the balance in the party between conservatives and liberals seemed temporarily stable.

This was suddenly thrown out of kilter by the unexpected death on April 15 of Hu Yaobang, former party leader, who had been sacked in 1987 as responsible for student protest in December 1986 and January 1987.

This came at a sensitive time, when Peking students were planning to mark the 70th anniversary of the May 4 movement, the 1919 student protest against the dismemberment of the country under the Treaty of Versailles.

Pro-democracy demonstrations sparked by Hu's death culminated in a huge May 4 anniversary march to Tiananmen, though already the hardliners were presaging their later toughness with accusations that plotters were attempting to bring down the party.

Nine days later, hundreds of students arrived in Tiananmen to begin a hunger strike to win a dialogue with the leaders to force them to retract the accusations of a student plot, and to agree to freedom of the press and an end to corruption and bureaucracy.

When Soviet President Mikhail Gorbachev arrived for the Sino-Soviet summit on May 15, the supporting crowds in the square and on the streets had swelled to such hundreds of thousands that his programme was almost totally disrupted.

Already the leaders were engaged behind the scenes in a power struggle. By May 20, when martial law was declared, Peking was already ringed with up to 200,000 troops, less to suppress the students than to effect a coup against Zhao and the other reformists.

As Deng Xiaoping demanded, and got, protestations of loyalty across China, it became only a matter of time before the troops moved to quell the demonstrations and assert the authority of the hard-liners.

It is China's misfortune that the old guard has lived so long. The country has been bedevilled by their rivalries – many dating from the 1920s and 1930s – ever since their ascent to power in 1949.

Along with Mao Zedong, they ran the country in the 1950s, and, loyal to him at that time, they followed him into the economic disaster of his chaotic Great Leap Forward of 1958.

However, when they rescued the economy in the years that followed, Mao grew suspicious of their ambitions.

When he launched the Cultural Revolution in 1966, it was essentially to reclaim the power he had lost. He succeeded in that, but at the cost of plunging the country into bloodshed and chaos which lasted until the early 1970s.

Even in that period, China was still run essentially on the basis of personal enmities and loyalties by Mao's wife Jiang Qing and her henchmen, the rest of the Gang of Four, who had risen to the top in the Cultural Revolution. Deng, who made a comeback in the early 1970s, having suffered badly in the Cultural Revolution, was dismissed again in 1976, not to return again until well after Mao's death, when there was a genuine demand for change.

With this history of personal ambition and intrigue, it is not surprising that China is faced again by the eruption of a naked power struggle.

It is tragic that the losers again are the Chinese people. The one hope is that the seeds of a modernised and open society have been sown widely enough in the past 11 years for them to sprout again when another Peking spring re-emerges.

A CHINESE COMMUNIST CHRONOLOGY

The June 3 massacre crowns a turbulent 40 years of Maoist communism in China, proclaimed in Tiananmen Square in 1949, writes Colina MacDougall:

1949: Mao proclaims People's Republic of China.
1957: The "Hundred Flowers" movement – Mao encouraged free speech for a few weeks, then punished all who had spoken out against party abuses.
1958: The Great Leap Forward – Mao's disastrous mass mobilisation movement to step up production.
1958: Foundation of Rural Communes.
1959: Inklings of disaster – failure of harvest and disputes with Moscow.
1960: Sino-Soviet split – Khrushchev withdraws Soviet aid from China.
1961: Widespread starvation due to rash implementation of commune system and three bad harvests; Mao retreats from prominence and collective leaders headed by Liu Shaoqi, aided by Deng Xiaoping; economic controls eased.
1966: Mao launches Cultural Revolution to regain power.
1967: Red Guard strife.
1969: Mao brings in the army to restore order and Red Guards banished.
1971: Coup plotted by army leader Lin Biao, who fled towards Soviet Union but his flight crashed in Mongolia.
1972: Premier Zhou Enlai, near-impotent during Cultural Revolution, regains some influence; Nixon visits China; Peking embarks cautiously on more open policy; Deng re-emerges after five years.
1974: "Anti-Lin, anti-Confucius campaign": the Gang of Four (Mao's wife and henchmen) attack Zhou under guise of criticising Lin Biao.
1976: Zhou dies. Memorial service for him becomes an anti-leaders riot – "Tiananmen Incident". Deng blamed by Gang and sacked again; Mao dies, Gang of Four arrested.
1978: Deng comeback.
1979: Reform of agriculture, leading to abolition of communes. First legislation permitting foreign investment.
1980: Zhao Ziyang, protégé of Deng, becomes premier.
1981: Hu Yaobang appointed party leader.
1984: Party adopts urban economic reform programme intended to free enterprises from bureaucratic control.
1986: Student protests.
1987: Hu blamed for student protest and dismissed; Zhao replaces him and Li Peng appointed acting premier.
1988: Growth of inflation, corruption and speculation, runs on banks, panic buying.
1989: Death of Hu; student protest.


Listen, Comrade! – urgent persuasion in Peking yesterday

OVERSEAS NEWS

AIDS spawns an epidemic of unconcern

Familiarity with the disease is breeding an undisguised contempt for its effects

Those whose business is to deal with the disease remain in awe of the problems, Clive Cookson, Jimmy Burns and Peter Marsh report

SEVERAL thousand doctors, medical researchers and health administrators have gathered in Montreal this week for the fifth international AIDS conference, against a background of a rapidly increasing number of worldwide AIDS cases – and rapidly declining public interest in the disease, at least in Europe and North America. Despite intense research, no cure for the disease or vaccine to prevent it is yet in sight.

Politicians, journalists and the general public are currently showing less concern about AIDS than at any point since the first international conference in Atlanta in 1985, when the world was shocked into realising that the disease was a serious threat to public health.

"In the US there's now a familiarity with the disease which has bred an undisguised contempt for it," says Dr June Osborn, Dean of the School of Public Health at the University of Michigan. "I even have people saying to me: 'Your life must be becoming easier now that the epidemic is on the wane.'

"Unfortunately society is not dealing successfully with AIDS, but sweeping it under the carpet. The people whose business is to deal with the epidemic remain in awe of the looming problems."

Experts are becoming more confident about estimating the size of the epidemic and predicting its future growth, as governments, particularly in Africa, stop pretending that AIDS hardly exists and begin to welcome medical assistance from outside. The World Health Organisation, which expects to spend $90m this year on its Global Programme on AIDS, estimates that between 5m and 10m people are now carrying HIV, the virus that causes AIDS; 20m are likely to be infected by the year 2000. According to present medical knowledge, most of them will eventually die of AIDS.

The number of AIDS cases officially reported to the WHO reached 152,000 last month, but the true total is believed to be at least three times as great. WHO projections show the number of cases reaching 1m by the end of 1991 and 3-4m by the end of the century.

Although the US has much the largest number of official AIDS cases – 90,000, of whom about half have died – the epidemic there is still confined largely to homosexual men and people who inject themselves with illegal drugs. In Africa, where the 23,000 reported cases probably represent less than one tenth of the real total, the vast majority have been infected by heterosexual contact or by their mother in the womb.

According to the Organisation Pan-Africaine de Lutte contre Sida (Opals), based in Paris, up to 30 per cent of young adults and 15 per cent of children are now infected in some cities in central Africa. Dr Michel Rosenheim, Opals vice president, says the social effect will be devastating.

"AIDS is affecting the most healthy and productive members of society," Dr Rosenheim says. "It is not a disease of the poor like tuberculosis and malaria. The future leaders of these African countries are going to die of AIDS."

In most of Europe and North America the much feared "break out" of AIDS into the non-drug-using heterosexual population has not occurred. Although Europe as a whole remains about three years behind the US in the progress of the epidemic, different patterns are emerging in southern Europe, where the disease is concentrated among intravenous drug users, and northern Europe, where most victims are homosexuals.

AIDS is beginning to spread through the Caribbean region as a heterosexual epidemic on the African model. But perhaps the most disturbing new evidence comes from Asia, the continent so far least touched by AIDS. Tests on illegal drug users in Bangkok show that the proportion infected by HIV has risen from just 1 per cent in January 1988 to more than 50 per cent now.

Dr James Chin, head of the WHO's AIDS surveillance unit, says that the Bangkok figures should finally destroy the myth that Asians have largely escaped infection because they are genetically less susceptible to the virus. Since Bangkok is a centre for "sexual tourism," infection of the city's 50,000 drug users could spread AIDS rapidly through the region.

Nations are divided as to what social policies should be adopted to deal with the disease. So are employers and trade union officials, who are having to deal with AIDS as a labour relations issue.

Cuba stands out as the only country where the government forces AIDS patients to live apart from their families and friends in special sanatoria until they die. China last year strengthened local legislation making homosexuality, drug addiction, and prostitution punishable by lengthy labour re-education, as a way of combating AIDS. And mandatory testing is practised in a growing number of states and countries including Bavaria, Bulgaria, South Africa, Argentina, and the Soviet Union.

So far, the US and most west European governments have resisted draconian measures because of the political, social, and legal implications, quite apart from the unproven medical effectiveness of compulsory testing.

Companies which openly declare that they screen potential recruits are the exception rather than the rule. Testing is for jobs in which AIDS could arguably affect performance and put public safety at risk. Examples are British Airways and Texaco, which have introduced screening for pilots and truck drivers respectively.

US employers who tried to solve the problem of AIDS at the workplace by firing those with the disease are now finding themselves on the wrong side of the law. Since 1986 an increasing number of states and several cities in the US have made AIDS a "protected handicap" so that a large measure of protection now surrounds the victim.

The issue of AIDS discrimination at the workplace has yet to be fully tested in European courts. However a report written by the international jurist, the late Mr Paul Sieghart, argues that a company which refuses a job applicant because he or she is suspected of carrying the AIDS virus could be liable under international human rights law.

Last year in one of the first cases of its kind in the UK, a homosexual who was sacked because his colleagues feared he would give them AIDS won £2,000 damages in an out-of-court settlement, even though a court had earlier ruled against him.

On balance, however, most companies in Europe and the US are adopting a conciliatory approach which avoids such legal minefields and minimises disruption in industrial relations. This concentrates on providing information about the facts as far as they are known and laying to rest irrational fears about "catching AIDS" from contact at work.

Life insurance companies, on the other hand, argue that their financial health depends on discriminating against clients who are at risk from AIDS. Their attitude – and in particularly the way they have asked applicants about HIV tests – has put the insurance industry in conflict with the organised medical profession.

The only drug so far licensed by government authorities to treat AIDS directly is AZT (also known as Retrovir) made by Wellcome, a UK pharmaceutical company. But AZT, which is used by about 30,000 people around the world, is far from perfect. It causes unpleasant side effects, such as severe anaemia, in many AIDS patients and it does not claim to cure the disease but only to relieve some symptoms and prolong life.

For the £70bn-a-year world drug industry, therefore, the challenge is to come up with a product that will improve on AZT. According to the Pharmaceutical Manufacturers Association of the US, a total of 56 medicines designed to treat AIDS and the secondary infections which accompany it are now going through the various stages of the Food and Drug Administration's approvals process.

Designing an effective treatment for any virus is a formidable scientific challenge. Viruses work by infiltrating themselves inside human cells and hijacking the host cells' metabolic machinery to grow and reproduce. They are much more difficult targets than bacteria, which are independent cells and can be killed by antibiotics without destroying the human cells around them.

The way HIV can bury itself in the genetic material of the cell and then suddenly burst into lethal action after a delay of several years makes it hard to attack, even in comparison with other viruses such as influenza and the common cold for which no cures exist. A "cure" for HIV, in the sense of eradicating the virus from the genes of AIDS patients, may not be achieved for several decades; but most researchers believe that they can develop a drug which is free of side effects and which suppresses all symptoms of the disease.

Several anti-viral drugs now proceeding through the final stages of clinical trials look as though they might have fewer side effects than AZT. One of the most promising is dideoxyinosine (DDI), under development by Bristol-Myers of the US. Both AZT and DDI work because they mimic the chemical building blocks of the genetic material DNA.

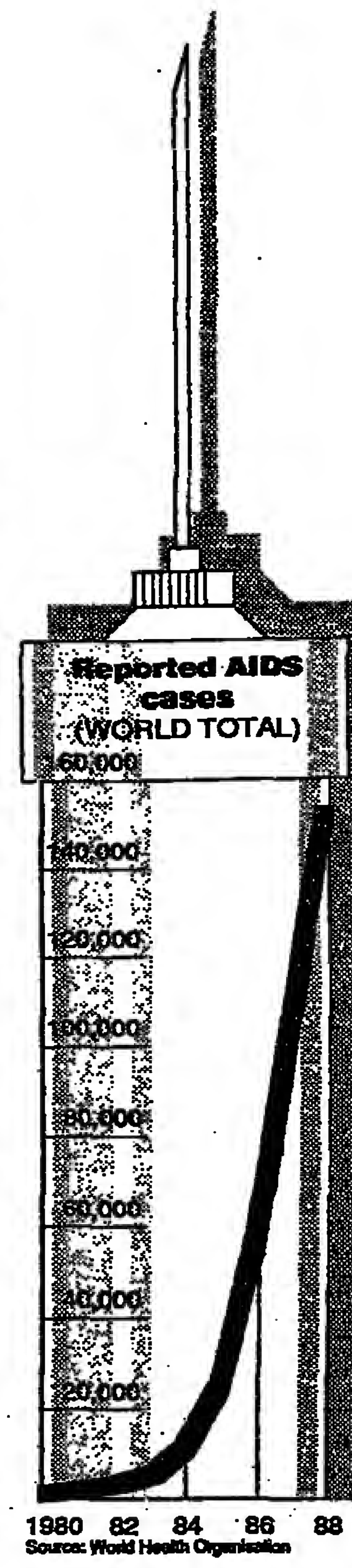
The new anti-virals are likely to be used in a "drug cocktail" containing other medicines designed to stimulate the immune system and to fight the secondary infections such as pneumonia which afflict AIDS patients.

Developing a vaccine to prevent HIV infection may be even more difficult than finding an effective treatment. Some AIDS specialists say that the nature of the virus makes the quest for a vaccine hopeless.

But 12 pharmaceutical companies are trying to develop an HIV vaccine in the US. And in the current issue of the journal Nature, a UK team led by Professor Jeffrey Almond of Reading University reports encouraging laboratory tests of a prototype vaccine based on a hybrid HIV-Polio virus.

Although AIDS victims are understandably impatient that new drugs are not emerging more rapidly from the billions of dollars spent on AIDS research, the progress made since HIV was discovered six years ago has been astonishing. And, because of the cross-fertilisation with other areas of medical research, future beneficiaries could include anyone who suffers from a viral illness or even cancer.

The mood in Montreal, however, is far from triumphant. In the absence of a cure or vaccine, the only viable policy for containing the AIDS epidemic is to persuade the public to avoid risky sexual behaviour and stop sharing drug needles. That depends on a high level of media and political interest in the disease, and AIDS specialists who complained that journalists overwhelmed previous international AIDS meetings are worried that there may not be enough coverage this time.



Source: World Health Organisation

Turkish guerrillas leave 50 dead in spring offensive

By Jim Bodgener, recently in Diyarbakir, south-east Turkey

MORE than 50 people, including civilians, have been killed since early last month, as Turkey's south-eastern region has once again been hit by a spring offensive, launched by guerrillas of the separatist Marxist Kurdish Workers' Party (PKK).

The offensive has led to one of the strongest counter-insurgency sweeps yet mounted against them by the Turkish security forces.

The deputy governor of the region, Mr Nafiz Kayali, admitted in the south-eastern capital, Diyarbakir, last week, that attacks had escalated in recent days. But he said the incidence of terrorism generally had declined so far this year, compared with 1987. More than 1,000 people are estimated to have died since the guerrilla war with the PKK started in earnest in mid-1984.

The terrorists, estimated to have about 300 hard-core fighters inside Turkey, have switched tactics from comparatively soft civilian targets – such as village headmen and rural militia – to direct attacks on the security forces, or propaganda operations clearly aimed at recruiting more sympathisers, by playing on tensions between the emergency administration and the population, largely Kurdish.

However, Mr Kayali said the greater efficiency of the security forces this year better shielded the populace from the PKK. Nor did there appear to be much co-ordination in the guerrilla attacks, judging by the losses inflicted by the security forces, he added.

Early in May, an attack on a coal mine was followed by a bus hold-up when four soldiers and a civilian were shot. On May 22, 12 terrorists were killed in the mountainous area around Eruh, among them four high-ranking PKK leaders, and reportedly one foreigner - generally believed to be a Syrian.

Although Syria has ostensibly ordered PKK bases off its territory as part of a superficial rapprochement with Turkey, it is an open secret that PKK terrorists train in the Syrian-controlled Bekaa valley in the Lebanon.

US purchasing managers' index shows weakness

By Anthony Harris in Washington

THE US purchasing managers' index, the most widely followed indicator of industrial sentiment, turned negative for the first time in 33 months in May, its Business Survey Committee said.

The index, at 49.7, was barely below the neutral 50 mark, but sharply down from its level of 53 in April, and fell below its recent low point of 50.4 in March. It has fallen from 57.3 since the end of 1988. A 50 score indicates an equal weight of upward and downward expectations in a weighted industrial sample.

At the same time, the purchasing managers' inflation index fell to its lowest level since 1986. The report indicates growth slowing to a 2.5 per cent annual rate, provided the index maintains its 1989 average of 51.9, Mr Robert Bretz, chairman of the committee, said.

The inflation indicator showed a sharp fall in the proportion of companies expecting to pay higher prices, at 25 per cent, against a recent high of 40 per cent, while the number expecting to be offered cut prices, at 10 per cent, was twice as high as in recent months.

Only 11 commodities were reported up in price during May, the lowest number for more than two years, and 10 were reported down – the highest since July 1986.

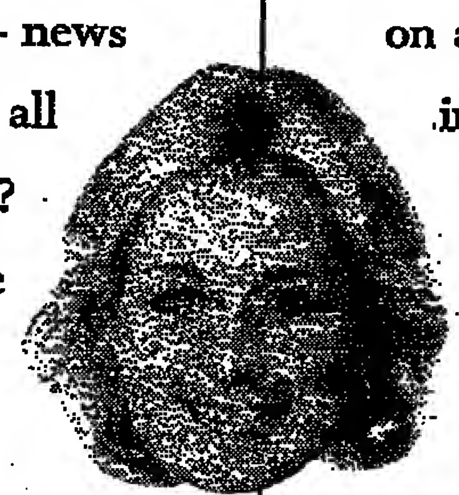
On the output side, only the indicator of export orders, at 60 (down from 62 in April) remains strongly positive. The production index, showing current conditions, remains positive at 51.1, but was sharply down from April's 55.5.

(actual size)

Here are fifteen of the best loved faces on television.

(Most of which you've never clapped eyes on.)

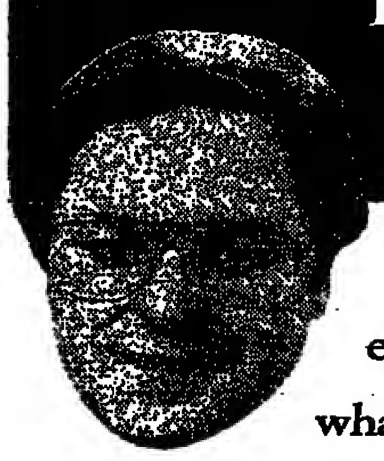
You know how early in the evening on ITV just after the National News has finished, another – and rather interesting – news programme comes on telling you all about what's happened in your area?



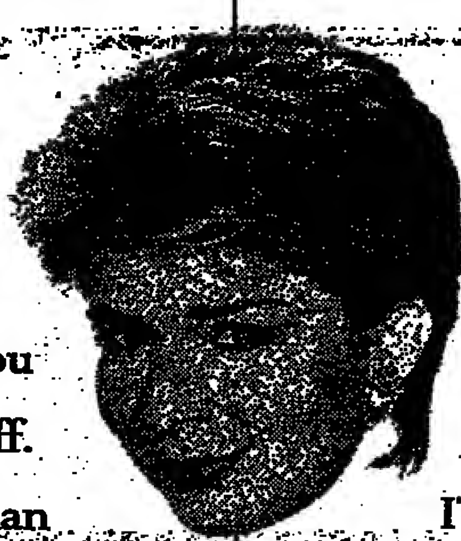
Well, you probably recognise one of these people as a presenter of that news programme.

And it's equally probable you haven't a clue who the other fourteen are.

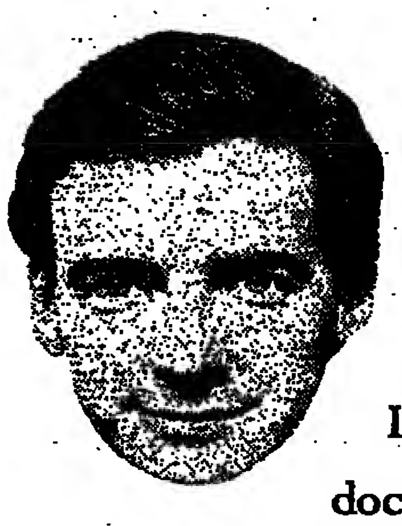
That's because at exactly the same time that your presenter is telling you all about the issues that concern you, the others are telling everyone else in the country what's been going on in the region they live in.



It's a remarkably simple idea based on the premise that what's happening in Leeds or Littlehampton is of precious little interest if you happen to live in Cumbria or Cardiff.

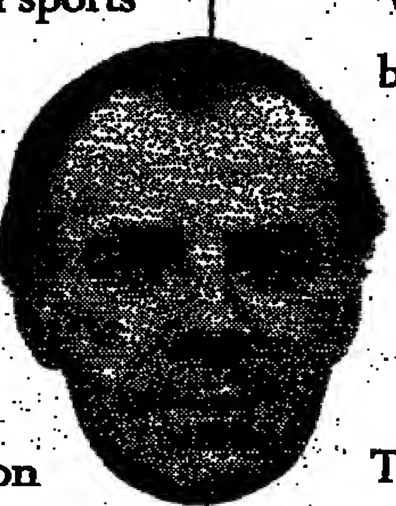


The system has proved more than popular. In 1988 the ITV companies produced 3,845 hours of regional news.



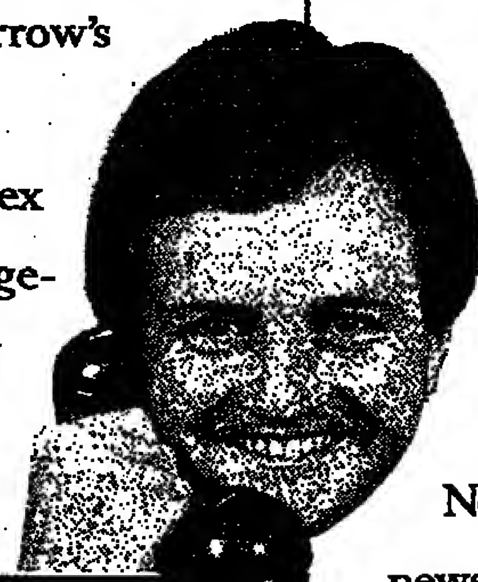
But 'current affairs' are by no means the whole picture. ITV also produces regional documentaries and regional arts programmes, as well as a lot of regional sports coverage.

Last year Scottish Television produced a programme called 'Thairis Air An Fheasgar,' a Gaelic chat show. It's probably fair to say that 'Thairis Air An Fheasgar' would not have made it on to national television. However, ITV's regional system enabled it to be shown north of the border, where it proved highly popular.



Another example of television that's much more intelligible to the locals is '01-For London,' a weekly round-up of what's on and where to be for the arts-conscious in the capital.

Then there are our regional weather services. Every ITV area gets its own weatherman (or woman) with his or her forecast of tomorrow's highs and lows.



Finally, thanks to our complex but efficient networking arrangements, each regional company can make programmes for the entire nation to see.

The result of all this is that 57% of ITV's home-grown output for the network is made outside London. That really is 'Britain talking to Britain.'

With so many widely spread stations, the ITV system truly is rooted in the regions.

It would be much cheaper if ITV decided to operate from fewer centres than the current fifteen.

And cheaper still if it operated from just one.

But the range, quantity and quality of local programmes would be sadly reduced. Efficiency might win but many might lose.

Voluntary organisations, for example, benefit from our fifteen main regional services.

The Samaritans were one of the first to make use of our community service announcements (CSAs).

This is air time given free to charities for short publicity films.

Like other voluntary organisations, The Samaritans are extremely worried that the Government's plans concerning the future of broadcasting will so alter commercial television that these types of services will be squeezed out of mainstream viewing. (Or, even worse, disappear completely.)

Advertisers too value the present regional services. The system allows them to advertise on ITV and Channel 4 promoting products or services which are of particular interest to people in individual areas.

This regional system benefits each and every community by its broadcasts. Not just by supplying regionally relevant news, current affairs and entertainment, but by bringing jobs and training to the area.

Recently the IBA carried out a far reaching survey into what you think about all this. Their findings showed that 90% of people wanted *more* not less regional television and, in particular, news programmes.

Yet what is the Government's attitude to regional programming?

In its White Paper it accepts that the regional basis of ITV is crucial, but fails to make clear how the current regions and their audiences are to be safeguarded, or how the costs are to be met in the fiercely competitive new era.

With the introduction of Channel 5 there will be another national channel.

And the abundance of satellite channels (twelve already and at least five more to come) will all be either national or international in their programming.

This additional choice may be a good thing, but not, if to make way for it, highly valued services have to be jeopardised. To keep ITV regional we need to be sure we can foot the bill.

ITV

French minister takes cautious line on capital liberalisation

By Guy de Jonquières, International Business Editor

THE FRENCH Government has indicated that it may be unwilling to meet its commitment to remove its remaining capital controls next year unless the European Community adopts measures to combat tax evasion.

Mrs Edith Cresson, France's minister of European affairs, said in an interview that her government would use its EC presidency in the second half of this year to press for "guarantees" against the risk of tax evasion on income from savings and investments.

Asked whether France would be prepared to go ahead with capital liberalisation even if it failed to obtain such measures, she said: "That is not France's position. France wants to have a discussion on the conditions in which this liberalisation could take place."

She acknowledged that the French Government had given a legal undertaking in Brussels a year ago to remove all capital controls in July next year, and that it had said then that it would not make its decision subject to any pre-conditions.

"But at that time the situation was different," she said. "At that time West Germany said it agreed to a withholding tax. So the situation has changed a little, and we shall see what is to be done."

Mrs Cresson said Bonn's recent decision to scrap its own withholding tax made it unlikely that the European Commission's proposal for a common 15 per cent withholding tax would be adopted. The proposal, which would have to be approved by all 12 EC governments, is also opposed by the UK and Luxembourg.

She declined to specify what kind of "guarantees" France wanted in place of an EC withholding tax, saying her government did not want to give away its position in advance of negotiations. She did not think the issue would complicate negotiations on economic and monetary union.

France has already dismantled unilaterally many capital controls. However, it still prohibits individuals from opening accounts in foreign currencies or with banks abroad.

Mrs Cresson also described as "excessive" the recent criticisms of the EC made by Mrs Margaret Thatcher. However, the French minister expressed confidence that the UK would eventually play a full part in further European integration.

Mrs Cresson said other EC members had grown used to waiting for Britain to become a full member of the European Monetary System. If it continued to stay out of the EMS, its absence would not impede progress to monetary union.

Walesa raises his glass to capitalism at Gdansk

John Lloyd on attempts to save the shipyard

IT WAS Lech Walesa's name day on Saturday and a few old comrades, relatives, two US television networks and a Polish-American millionairess who says she wants to buy the Gdansk shipyard dropped by in the early evening for vodka and snacks. Those of the party who could speak Polish sang: "May you live a hundred years."

Mr Walesa has come a long way since the day in 1980 when he climbed over the wall of the Lenin shipyard to lead the strike which saw the founding of Solidarity and made him the most famous working-class leader since the Second World War. The party at his big new villa in Polanki Street, in a pleasant suburb of Gdansk, was a kind of tableau of the contradictions and responsibilities he must now shoulder.

As he finished welcoming his guests, a crew from Polish state television (who were not invited in) begged a brief interview on the eve of election day. Mr Walesa, the symbol of anti-communist revolt, said that he advised his supporters to vote for the leading national and Communist Party figures on the "national list" – the 35 names the Polish Government most wishes to be elected but who, under the Round-Table agreement, must get at least 50 per cent of the vote.

The interview completed, he went inside once more to toast Mrs Basia Piasecka-Johnson, the Polish-American heiress of Johnson and Johnson whom he bumped into during the Corpus Christi procession in Piekary Slaskie, in Silesia, a mere two weeks ago. The two were introduced by Monsignor Jankowski, the Gdansk parish priest whose church of St Brygida has from 1980 acted as a refuge and a publicity centre for Solidarity: his version of events is that when Mr Walesa told her how worried he was about finding a buyer for the Lenin yard, under government sentence of closure, she said: "I am here."

It sounds miraculous and was presented in that light by Mgr Jankowski in a sermon he gave in St Brygida's yesterday. Details, however, take longer than miracles: neither Mrs Johnson nor Mr James Whisenand, one of the three lawyers who attended her, would say more than that an outline agreement had been signed between Mrs Johnson, the yard management and Mr Walesa, but that much further work remained to be done before a final deal.

However, at least one other company – Durainsil, an Anglo-Polish joint venture – has claimed to have an agreement to take over part of the yard.

Mrs Johnson's late husband, Mr Seward Johnson, has established an oceanographic company, the Harbour Branch Foundation, which Mr Whisenand described as "extremely successful". Mr Whisenand said that the shipyard project would add flesh to the speech promising support to Poland made by President Bush in April.

There was no doubting the enthusiasm with which she was greeted yesterday – Mgr Jankowski committed her, as she sat close to him in the church, to running the yard with no redundancies: Mr Walesa, in a speech outside after Mass, appealed for those workers who had been laid-off or sacked to come back to join the 7,000 still in the yard and said that the first ship built under the new management would be called "Solidarity". Mgr Jankowski came back to say that "only the Communists could close the Gdansk Lenin yard: we will re-open the Gdansk Piasecka-Johnson yard!"

The project, brilliantly presented as blending nationalism, capitalism, workers' rights and Catholicism, almost over-shadowed the elections as the progenitor of a new era.

Outside the yard's main gate, by the Three Crosses memorial to the 28 workers killed during the 1970 riots, the Solidarity guide to the memorial picked up the theme of praise for Mrs Johnson, particularly because she will recognise Solidarity as having union rights. However, she would, he said, fire all the Communists.

At a nearby polling station, as voters go in and out to the background cacophony of tuning-up at Gdansk Music School, one voter at least had been confused by Mr Walesa. Mr Henryk Jezierski, a retired technician, asked the Solidarity man outside the door to identify Solidarity members on the national list. There was none, he was told. "So why should I vote for them?" "You don't need to," said the Solidarity man. Puzzled, apparently a little fearful, Mr Jezierski went to vote in what might or might not be a new era, which might or might not contain the Piasecki-Johnson yard – but which, one way or the other, seemed certain to leave Lenin out of it.

Mengistu in bid to end rebellion in the north

PRESIDENT Mengistu Haile Mariam, shaken by a bloody coup attempt two weeks ago, opens an emergency session of Ethiopia's parliament today, to debate ending the rebellion in the north, Reuter reports from Addis Ababa.

Analysts and diplomats said the meeting probably offered the last chance to seek a peaceful settlement to the 28-year rebellion in Eritrea Province.

"Mengistu knows that failure to have some kind of viable solution to the conflict would cause immense problems for the country," one African diplomat said.

"But he is facing rebels who feel they can drag their feet."

During the coup attempt, mutinous troops seized the state-run Radio Asmara in Eritrea's capital, to broadcast statements aligning themselves with the Eritrean People's Liberation Front (EPLF), which for the past 28 years has campaigned for the province's independence.

Bhutto brings in tough budget

By Christina Lamb in Islamabad

PAKISTAN'S six-month-old democratic government has presented its first budget, declaring 1989 a year of austerity.

Ms Benazir Bhutto, the Prime Minister, left shortly afterwards on an official trip to the US and within hours of her departure, eight parties announced they had combined to form a joint opposition in parliament under the leadership of Mr Ghulam Mustafa Jatoi, a politician respected by both army and establishment.

Ms Bhutto admitted the budget was tough, but said it was "necessary to put the economy on the right track. The last régime left us with millions of dollars in unpaid bills."

The new measures included introducing new taxes, increasing user charges and slashing subsidies to reduce the fiscal deficit from Rs63.4bn (£1.9bn) to the Rs55.8bn or 6 per cent of GDP agreed with the IMF as part of a three-year $1bn package.

Goverment spending has been cut while the defence budget has been increased 1.3 per cent, way below inflation of 11 per cent, though still accounting for 36.9 per cent current expenditure.

Sales tax has been imposed on 44 items, mostly construction materials, in an attempt to hit smugglers who use their illicit earnings mostly on building.

However the measures were less harsh than expected after the IMF agreed to relax the pace of reform, causing distress amongst the opposition which had hoped to use its new-found unity to mobilise people in street protests, embarrassing Ms Bhutto in America. "It's not as tough as we had hoped," commented one leader.

One of the most controversial measures is a new scheme to legalise "black" money, which is said to be more available than "white", and come mainly from smuggling of contraband and narcotics. Smugglers can now invest illicit earnings by paying 10 per cent as a fee, a scheme the government hopes will generate Rs2bn.

The new government places much stress on privatisation and by selling off shares in government corporations for the first time, they hope to earn Rs1.5bn this year. They are also allowing six private investment banks to be set up.

After intelligence reports that the opposition planned to cause unrest, Ms Bhutto set up a crisis committee to deal with any problems while she is away.

During her six-day visit to America, Ms Bhutto will meet President Bush to discuss the Afghan situation.

The Bush administration has recommended $621m aid to Pakistan as part of $4.02bn six-year package, but Mr Bush has yet to certify that Pakistan does not possess a nuclear explosive device.

SHIPPING REPORT

Gulf business slackens

By Rachel Johnson

THE Middle Eastern Gulf saw a sharp fall in activity for large-size tonnage last week. Brokers, however, said this was not surprising bearing in mind that the Organisation of Petroleum Exporting Countries (OPEC) was due to meet this week to decide on production quota levels for the second half of this year.

Rate levels did not appear to have suffered despite the drop in activity – probably because of the underlying strength of the market.

Vessels were reported to have been fixed for 260,000 tons from the Gulf to the West at between New World Scale 45 and 47.

Trading was brisk in West Africa and records showed a very limited availability for tonnage at the "conference level" class.

In the North Sea, rate levels increased by about 20 points to NWS 147.5 for short haul voyages. Galbraith's said this was mainly because Brent crude was back on the system.

WORLD ECONOMIC INDICATORS

INDUSTRIAL PRODUCTION (1985 = 100)

					% change over previous year
	Apr.'89	Mar.'89	Feb.'89	Apr.'88	
US	114.0	113.6	113.5	109.4	+4.2
Japan	119.7	122.9	117.1	111.3	+7.6
	Mar.'89	Feb.'89	Jan.'89	Mar.'87	
UK	109.6	108.9	109.1	108.6	+0.9
W. Germany	109.7	110.7	110.7	104.4	+5.1
France	108.7	109.7	110.6	105.6	+2.9
	Feb.'89	Jan.'89	Dec.'88	Feb.'88	
Italy	116.8	115.3	118.5	110.6	+5.6
Netherlands	104.0	103.3	103.3	100.4	+3.6

Source: (except US) Eurostat

Brady to seek banks' support on debt

MR Nicholas Brady, the US Treasury Secretary, is to press banks to support his recent initiative to ease the Third World debt problem today, David Lascelles reports from Madrid.

He is addressing 100 of the world's leading commercial and central bankers assembled here for the annual International Monetary Conference. Bankers say they hope Mr Brady will provide further details of the debt reduction initiative he launched in March.

Other issues on the agenda include the present currency situation.

Argentine credit rating lowered

ARGENTINA, torn by political turmoil and riots over inflation, has formally been declared value-impaired by US banking regulators who have lowered its credit rating, Reuter reports from Buenos Aires.

The decision obliges US banks to set aside specific reserves against their Argentine portfolios.

A foreign banker said he received the news late on Friday from his bank's US headquarters. The US Federal Reserve in Washington would not confirm the information and commercial banks in the US could not be contacted.

US bankers had been expecting the move because Argentina has not made any interest payments on its $60bn foreign debt since April 1988. It owes its creditor banks $3bn in unpaid interest.

Swiss vote against peasant farms

A SWISS citizens' initiative in favour of peasant farms was defeated by the narrowest of margins – 51 per cent against 49 per cent – in a national referendum yesterday, William Dullforce writes from Geneva.

The proposal, which was opposed by the federal government and the Swiss farmers' union, would have switched the state's substantial agricultural subsidies exclusively to small family farms.

هكذا أصبح الأصل

RJA-251FTF

Power steering and central locking standard on all models

With every mile it grows on you

Pride of ownership, superlative comfort and pure driving pleasure don't require vast power or great mass. What *is* required is the type of advanced engineering for which Mercedes-Benz are famous. The Mercedes-Benz 190 is the proof. Within the design strictures of a compact four door, five passenger saloon it is one of the most rewarding driver's cars ever produced.

With every mile you drive in a 190 your sense of security grows. The more often it demonstrates its capabilities, the more you appreciate the skill of its designers. As each month of ownership passes, you appreciate the car's tireless performance and perfect road manners.

Every Inch A Mercedes-Benz

Although light in weight, the solidity of the 190's construction and its immaculate suspension system give it a ride more readily identified with larger, more expensive Mercedes-Benz cars.

In fact, if you didn't know beforehand, you would be hard pressed to tell which Mercedes-Benz you were travelling in.

The 190 is no less a Mercedes-Benz when it comes to safety. Unique electronically controlled front seat-belt tensioners, a passenger safety cell with front and rear crumple zones and ABS anti-lock braking (an inexpensive option when not a standard feature) are all integral parts of its safety engineering. This blend of mechanical sophistication and traditional Mercedes-Benz practicality is available in six variations. From the 2 litre, four cylinder 190 to the 197bhp, 190E 2.5-16 – the car that redefined the term 'sports saloon.'

Relaxation Every Foot Of The Way

Every 190 is designed to minimise the stress of driving. All controls are ideally positioned and simple to operate. The instrumentation is uncluttered. Anatomically contoured, fully adjustable seats and an individually controlled heating/ventilation system keep each front seat occupant cossetted.

Whether steadily consuming mile after mile of motorway, manoeuvering a tricky S-bend or squeezing into a tight parking spot, the 190 has a superbly balanced system of complementary mechanical components: precise controls, uncanny handling, exemplary ride comfort and Mercedes-Benz reliability.

As you get to know your 190 it will grow on you. In stature if not in size.

Engineered Like No Other Car In The World.

Japan may file over Super 301

By Laura Raun in The Hague

JAPAN may file a trade complaint against the US over its controversial Super 301 clause which targets trading partners for possible retaliation, Mr Shigeo Muraoka, Japanese Vice Minister of International Trade and Industry, warned yesterday.

But Mr Muraoka also held out an olive branch with the possibility of discussions within the multilateral General Agreement on Tariffs and Trade (Gatt) to defuse any potential trade war.

He appeared to be returning a conciliatory gesture by Mrs Carla Hills, the US Trade Representative, who earlier had indicated that bilateral 301 negotiations could be brought under the multilateral Gatt umbrella.

Mr Muraoka and Mrs Hills were in The Hague for two days of biannual trade talks between Japan, the US, Canada and the European Community. The "Quadrilateral Conference" is an informal gathering designed to keep the four big trade partners abreast of each other's positions although no formal decisions are taken.

Mr Muraoka was responding to the recent US targeting of Japan, as well as India and Brazil, for possible retaliation under Super 301 if unfair or illegal trading practices are proved.

He outlined four other options which would stop short of an official complaint and seek mediation in Gatt.

- Tokyo would ask a Gatt working group to determine whether Super 301 was consistent with Gatt.
- The US would ask Gatt to set up a panel to investigate Japanese trading practices.
- The US would bring the bilateral discussions into the Uruguay round of Gatt negotiations.
- Gatt would initiate discussions between Japan and the US.

Mrs Hills, firmly defending Super 301 as a trade-opening measure, said there was no immediate change in positions but a good spirit. "If we have to have retaliation then we have failed in our discussions and I don't like to fail."

The four trade ministers, including Mr Frans Andriessen for the EC and Mr John Crosbie for Canada, sought to stress points of agreement on extending Gatt rules to international investments, intellectual property rights and services.

But it is understood that serious concern was expressed over Super 301's potential harm to the Uruguay round. It is feared that India, already considered balky about the Uruguay Round, will dig in its heels in opposing efforts to bring intellectual property rights into Gatt.

Lisbon to sell stakes in state groups

By Diana Smith in Lisbon

THE PORTUGUESE Government has announced its intention to de-nationalise state-run corporations which were created in the 1975 revolution. The de-nationalisation will come as part of a far-reaching economic and social programme.

De-nationalisation will begin with the Unicer brewery, which sold 49 per cent of its capital to the public in April. Sales of a minority share of the state corporation was a stop-gap until full privatisation became possible.

This now is, thanks to sweeping changes in the Marxist-inspired 1976 constitution approved on June 1 by an overwhelming majority of deputies from the ruling Social Democrats (PSD), the Socialists, Christian Democrats and Renewal Democrats: only the Communists and a few Greens and independents opposed the radical changes.

Mr Anibal Cavaco Silva's administration has taken advantage of last week's deletion from the constitution of clauses and phrases that banned de-nationalisation.

It has called for socialisation of the main means of production and collectivisation of land and a subordinate role for private enterprise in its programme which it launched at the weekend.

This coincided with the start of the two-week campaign for the European Parliament elections which the opposition considers a referendum on the government's performance.

The PSD's popularity has declined seriously the opinion polls this year: the administration has riled, either by talking down to, or peremptorily passing measures that affect the earnings or careers of, unions, doctors, lawyers, engineers, bankers and businessmen, the police, the armed forces and, as one wry commentator observed, "everybody but the old age pensioners."

The weekend's bumper bundle looks like a bid to regain status and give PSD candidates a boost in the June 18 election. Apart from de-nationalisation, it brings an increased national minimum wage, sale of state-run farmlands to small farmers, opening of state-run television to private enterprise and stimulus to private medicine.

There are also moves toward simplified bureaucracy for businessmen instead of the present red tape snarls, easier mortgages, a fight on drugs, crime, poverty and illiteracy, and the creation of an economic and social council where private citizens may, in principle, debate official policy with members of the administration.

The Government's plans for farming will replace a leftist agricultural reform that took over estates and redistributed land in the mid-1970s. A new law will fix frameworks for rural development and the structures of land tenure, allowing state-owned farms to be sold to small agricultural enterprises.

Aníbal Cavaco Silva

Canada and Brussels in pledge over fishing row

By David Buchan in Brussels

CANADA and the European Commission have pledged mutual "political will" to prevent their dispute over north Atlantic fishing from disrupting booming two-way trade between Canada and the EC that reached Ecus 20.5bn ($21.47bn) last year.

Mr Frans Andriessen, the EC external affairs commissioner, said new Canadian evidence about possible over-fishing of the Newfoundland Grand Banks, lying outside Canada's 200 mile limit, "has to be considered very carefully."

He said he could not prejudge the outcome of new planned talks between Brussels and Ottawa this summer, but confirmed the Commission's willingness to reach agreement.

The EC has complained that quotas set by the North Atlantic Fisheries Organisation (Nafo) are too low, and Spanish and Portuguese fishermen have exceeded these limits.

But Mr John Crosbie, the *Canadian trade minister, said* new evidence showed the increase in cod stocks over the past decade was not as great as had been earlier estimated.

The wider *impact* of the new US-Canadian free trade pact figured large in last week's talks.

But Mr Andriessen concluded that "it would no more have a negative effect (on Canada's trade with the EC) than what we in the Community are trying to do with the Efta countries." Brussels and the six European Free Trade Association (Efta) countries are trying to negotiate a new economic relationship

Vote will be fight for French middle ground

'Europe' is unlikely to play a material role in the June 18 election, Ian Davidson reports from Paris

EUROPEAN issues will play a secondary role in the French campaign for this month's elections to the European Parliament.

The central consideration for all the contestants is that the ballot on June 18 will be a test both in the struggle for the centre ground of French politics, and in the unresolved psycho-drama of the divided right wing.

European questions are unlikely to play a material role in the election, mainly because all the main-stream political parties, from the Socialists on the left to the Gaullists on the right, now parade under a consensual banner.

Only the Communists on the left and the National Front on the extreme right are fundamentally hostile to the idea that the European Community and the Single Market are the path of the future.

This apparent consensus across the broad middle ground undoubtedly encompasses disagreements at both ends of the political spectrum. The official Gaullist conversion to the objective of a more politically and economically integrated Europe is ostensibly unqualified *at* the top of the party.

But the conversion has been comparatively recent, and it is at odds with the traditionally *nationalist notions identified* with de Gaulle. Even some of the populist party barons, like Charles Pasqua, are manifestly more comfortable with the *nationalist tradition than with* the more modern overlay of liberalism and internationalism.

The European attitudes of *the Socialist Party represent* a mirror image to those of the Gaullists. The left wing of the party is still imbued with the traditional French instinct for nationalism and interventionism, and is much less comfortable with the ideal of an economy driven by market forces than Prime Minister Michel Rocard and Finance Minister Pierre Bérégovoy.

But President Mitterrand and his Prime Minister are committed to the aim of an economically and politically integrated Europe, and that is therefore official party policy.

The explanation for this veneer of consensus is that the parties have all gradually decided there is no alternative: not merely to French membership of the Community, but to a European model based broadly on economic liberalism and political integration.

The consequence of the consensus is that the *campaign* is being conducted with little reference to substantive policy issues. As one might expect, the Socialist platform places considerably more weight on the need for a European Social Charter.

But Mr François Leotard, leader of the Republican Party, seems closer to the mark when he says that "there is a general state of weightlessness, of disillusionment, in political opinion in France, where everything that is said has been heard before".

Of course, the European Parliament is itself somewhat remote from policy choices: it has far fewer powers than a national parliament, and the elected members do not form anything resembling a government. As voting day comes closer, the policy debate on strictly European issues may start to liven up between the government and the opposition; but it would be surprising.

On the other hand, the run-up to the election has been the arena for some fascinating manoeuvring by the political parties. The manoeuvring, and the outcome of the ballot, may not have great significance for the Community or for France's European policy.

But they may well have an important influence on the restructuring of the French political scene, and they are certainly being taken immensely seriously by the political parties – witness the prominence of the politicians who are leading their party campaigns.

The Socialist list, for example, is being headed by Mr Laurent Fabius, former Prime Minister and now President of the French National Assembly.

The centrist list is headed by Mrs Simone Veil, the former conservative minister and one-time President of the European Parliament, who has sometimes been described as France's equivalent of the Queen Mother. The joint Conservative-Gaullist list is being led by Mr Valéry Giscard d'Estaing, President of the Republic until his defeat by Mr Mitterrand in 1981.

The practical problems facing Mr Fabius as the leader of the Socialist list makes his choice something of a mystery. Notoriously, French members of the European Parliament have been, with the Italians, among the worst attenders of the monthly plenary sessions; *during the current five year* Parliament, Mr Georges Marchais, leader of the Communist Party, has turned up on only three occasions.

Mr Fabius insists that he will be an assiduous member in Strasbourg, though no-one quite knows how he will be able to combine it with his job in the National Assembly.

Much more interesting in political terms is the face-off between the two conservative lists of candidates. At the beginning of the year, it looked as though all the various conservative parties would join forces in a single list headed by Mr Giscard d'Estaing.

That was certainly the aim of Mr Giscard d'Estaing, as the elder statesman of the non-Gaullist conservatives, and he seemed poised for a deal on these lines with Mr Jacques Chirac, leader of the Gaullists.

The plan faced the resistance of two recalcitrant political groups, however: the centrist *CDS party, which has become* increasingly assertive of its own independence within the conservative fold; and a movement of young dissidents on *the right, who saw the opportunity* to destabilise the entrenched party leaders.

In April, the young reformers threatened to launch their *own list as a challenge* to that led by Mr Giscard d'Estaing; and at one point, there seemed a chance that the reformers and the centrists would join *forces* with a single list, in opposition to the old-fashioned conservatives.

But the young reformers turned out not to have the stomach for a serious rebellion; within two weeks, their courage melted away, and they fell meekly into line behind Mr Giscard d'Estaing and Mr Chirac. *The centrists were not to* be cowed, however, and they launched a separate list of their own.

These quarrels seem to be playing against the interests of the moderate right, and in favour either of the Socialists or of the minority parties. A recent poll suggests that the Socialists will get 28 per cent, significantly ahead of Mr Giscard d'Estaing's conservatives with 25 per cent, while Mrs Veil's centrists look like making a respectable 14 per cent.

The extreme right-wing National Front had a poll score of 10 per cent, the Green party registering 12 per cent.

Italian police seize copies of handguns

By John Wyles in Rome

COPIES of a Beretta handgun designed for collectors have been seized by Italian police after it was discovered that the Neapolitan Mafia, the Camorra, had been converting them into usable, and disposable, weapons.

The manufacturers, Nuova Molgora of Milan, are said to be unable to credit that their light alloy copy of the Beretta 7.65 could be made capable of firing live bullets at an estimated cost of L30,000 ($21.50).

Since the real weapon costs around L800,000 against some L130,000 for the collector's item, the latter is obviously attractive since it can be used once and thrown away, while repeated use of a normal weapon always offers the possibility of drawing a link between crimes.

The discovery that the facsimile was being used for criminal purposes was made by a Neapolitan police squad when, in search of drugs, it raided a small workshop on the outskirts of Naples in February.

There, it found two of the Milan company's products modified for direct action – subsequent discoveries suggest that the removal of a metal plug at the end of the barrel plus some modification to the firing mechanism was all that was needed.

Naples police claim to have evidence that the Beretta copy has been used in more than once in Camorra crimes.

Merger would create powerful left-wing union in Labour movement

Talks to open on big union merger

By Charles Leadbeater, Labour Editor

THE TRANSPORT and General Workers Union, Britain's largest union and MSF, the sixth largest union, are to open exploratory talks which could lead to the biggest merger in union history.

The two unions, which are both on the left-wing of the union movement, have a combined membership of 1.9m. Should the 1.28m strong TGWU also succeed in merger talks with the National Union of Mineworkers, it could have 2m members by the early 1990s.

A TGWU-MSF merger would create a powerful left-wing union, able to represent all grades of staff within manufacturing and covering almost all sectors of the economy from finance to car assembly and public services.

MSF's strength among professional, technical and supervisory staff would complement the TGWU's base among manual workers.

The merger plans will put pressure on other unions such as the AEU engineering union and the GMB general union, to accelerate their plans to attract other unions.

The merger could also have considerable ramifications for the policies of the Trades Union Congress and the Labour Party on issues such as public ownership and defence.

Both unions support unilateral nuclear disarmament. A merger would provide the left within the Labour movement with a new power base, at a time when the right wing seems in disarray in the wake of the collapse of merger talks between the AEU and the EETPU electricians' union.

The talks have been arranged following a letter from Mr Ron Todd, the TGWU's general secretary, to Mr Ken Gill, MSF's general secretary, proposing discussions aimed at developing a closer working relationship.

MSF's national executive, which discussed the approach at a meeting about 10 days ago, has sanctioned Mr Gill opening the talks.

The discussions will focus initially on developing common approaches to issues of policy involving the Trades Union Congress, the unions confederation, such as the proposed changes to the structure of the general council, on which both unions oppose proposals drawn up by Norman Willis the TUC general secretary.

The two unions are likely to start collaborating much more closely in making bids for union agreements on greenfield sites such as the Toyota investment at Derby, in the English midlands, and the Bosch plant to be built in south Wales.

Senior officials of both unions believe these exploratory talks will quickly develop into discussions about a full scale merger.

The two unions have complementary internal structures based on regions and trade groups covering different sectors, which should make a merger relatively easy to achieve.

However the talks are likely to be attacked by right-wingers within both unions. The right within the TGWU is concerned that Mr Gill and Mr Arthur Scargill, the NUM president, both of whom are on the hard left of the union movement, could come to play prominent roles within the TGWU.

The MSF was created last year from a merger between ASTMS, the white-collar union and Tass, the manufacturing union. Mr Gill who was formerly Tass' general secretary became MSF general secretary last year after serving in the position jointly alongside Mr Clive Jenkins, the former ASTMS leader.

● The conference of the GMB, the general union, will today discuss a proposed merger with the National Union of Tailors and Garment Workers.

Trade deficit in engineering set to deepen by 30%

By Nick Garnett and Terry Dodsworth

AEROSPACE products will be the only significant UK metal-using manufacturing sector to remain in the black in international trade this year, according to estimates by the Engineering Employers Federation, the main body representing engineering companies.

The federation predicts that the negative trade balance in all engineering products will worsen by 30 per cent, from a deficit of £8.9bn in 1988 to £11.6bn this year.

Economists at the federation estimate that most sectors of engineering, which range from computers and motor vehicles to rail equipment and heavy engineering will experience a significant deterioration in their trade balances through 1989.

Mechanical engineering, for the first time in recent history, will slip into the red, moving from a positive balance of £166m last year to a deficit of £1.6bn this year, the federation estimates.

The federation's projections are made despite its own calculations that engineering exports will continue to rise as they have done fairly constantly through the 1980's.

Engineering products last had a positive trade balance in 1982 – one of £2.3bn. It has deteriorated steadily since then except for last year when it more than doubled from the deficit of £4.2bn in 1987.

The biggest deficits last year were in vehicles and motor components (£6.1bn) and electronics and computers (£2.7bn). Aerospace equipment had a positive balance of £1.7bn which the federation expects to rise to £2bn this year.

Laggards in the exports race, Page 20

Pressure for consolidation intensifies

By Charles Leadbeater, Labour Editor

THE MERGER talks in prospect between the TGWU, general workers union and MSF, the general technical union, reflect the intensifying pressure on unions to merge, which could create a set of so-called "super-unions" by the early part of the next decade which would dominate the union movement.

The decline in union membership has made it more difficult for unions to support their infrastructure of full-time regional officials to support collective bargaining and recruit new members.

In addition unions have been attracted by the economies of scale which mergers should bring in offering financial and legal services, such as credit cards, discounted insurance and financial advice and improving recruitment.

Changes in working practices, the growth of single union agreements, and the spread of new technology has blurred the demarcation lines between blue and white-collar staff and workers in different industries which have traditionally provided the unions's with their organising boundaries.

Political factors have also played their part. A TGWU - MSF merger would provide a new focus for the left within the union movement and the Labour Party, just as the aborted merger plans of the AEU, engineering union and the EETPU electricians' union, would have created a focal point for the right-wing.

Unions have been attracted by the economies of scale which mergers should bring in offering financial and legal services, such as credit cards, discounted insurance and financial advice.

A TGWU-MSF amalgamation would put the merged union in a position to draw in a range of other left wing unions such as the Fire Brigades Union, as well as smaller unions within transport and manufacturing.

MSF would continue to pursue its policy of amalgamating with small independent staff associations in the manufacturing and finance sectors.

The move will increase pressure on other unions to press ahead with merger plans.

The GMB general union is attempting to become the focus of a centrist bloc within the Labour Party and the union movement.

Its recent merger with Apex, the white-collar union could pave the way for mergers with other white-collar unions such as the CPSA, civil service union.

The TGWU-MSF talks will start in the wake of the collapse of merger talks between the AEU, engineering union and the EETPU, electricians union, which are both on the right of the union movement.

Had that merger been successful the 1.3m strong merged union would have attracted other unions such as Ucatt, the construction union.

The EETPU now plans to step up recruitment and merger activity within the energy sector. Mr Eric Hammond, the EETPU's general secretary is keen to start talks with the Union of Democratic Mineworkers.

The TGWU is also planning to create a large energy section through merger talks with the NUM, miners union, Nacods, the pit deputies union and BACM the colliery managers union.

The AEU, riven by internal leadership divisions, is yet to develop a clear strategy in the wake of the collapse of talks with the EETPU..

Talks between Nalgo, the local government union and Nupe, the public services union, could create a new public services union by the early 1990s, which could also draw in Cohse, the health service union.

Meanwhile several unions in broadcasting, print and telecommunications are considering mergers which could pave the way for a large communications union.

Warning on job cuts as 1992 approaches

By John Gapper, Labour Correspondent

HUNDREDS of thousands of jobs in British manufacturing companies are at risk because of managers' failure to plan for the Single European market, Mr John Edmonds, general secretary of the GMB general union, claimed yesterday.

He said managers were "underestimating the effect of the Single Market by a very large margin."

Today, the GMB conference is to discuss a paper that argues that 1992 will mean the unions' bargaining priorities may change dramatically.

● Mr Roland Long, a member of the Confederation of British Industry, the employers' association, called for companies to accept worker participation in the Single Market programme because voluntary initiatives had failed.

Investment income 7% of trade union total

By Our Labour Editor

TRADE unions are drawing increasingly on income from investments to finance services for members, according to a TUC analysis of trade union finances published yesterday.

The analysis of trade union financial returns for 1987 shows that 79 unions with a combined membership of 8.75m had a total income of £366m, or £41.77 per member. This exceeded total expenditure per member of £39.38.

Yet income from subscriptions averaged at £37.22 per member. Income from investments and other sources was £39.8m, 7 per cent of total income, or £4.56 per member.

Contribution income increased by 7.5 per cent to £325.8m, while investment income rose 2.2 per cent to £25.7m. Unions held assets valued at about £553m, or £63.19 per member.

Residents rally against London road plans

By Rachel Johnson and David Churchill

THE TRANSPORT Department can be in no doubt that people do not want new roads in their backyards after thousands demonstrated their opposition yesterday to its plans to build new urban highways through London.

More than 4,000 people marched past the department's offices in central London to a rally in Hyde Park. The rally was addressed by Mr Jonathon Porritt, director of Friends of the Earth, an environmentalist lobby group, Ms Joan Ruddock, Labour MP, and others affected by the proposed road building schemes.

The demonstrators oppose schemes, known as the London Assessment Studies, which propose to redraw the road map of London.

United under an umbrella group called All London Against Road Building Menace (Alarm), they say that, even as lines on maps, the plans for new roads are blighting 100,000 homes. They say those living in the broad corridors designated for improvements are having difficulty in selling their homes, and mortgages are being refused.

Alarm, representing at least 100 pressure groups, estimates that the studies' proposals will jeopardise the existence of 250 schools and about 5,000 houses.

There are four assessment studies:

EAST LONDON: Hackney, Islington, Tower Hamlets, parts of Camden and Haringey.

WEST LONDON: South Circular Road from Gunnersbury to Wandsworth and Earl's Court.

SOUTH LONDON: A23 corridor from Brixton to the end of the M23 south of Purley.

SOUTH CIRCULAR: South Circular Road corridor from Wandsworth to Eltham.

The studies, commissioned on the abolition of the GLC in 1984, were supposed to develop a range of options to relieve transport congestion in four London zones - north-east, south, west and along the South Circular Road. The new road options were to take the pressure off "pinch points" of congestion and improve accessibility by opening up bottlenecks. However, so far the studies have resulted in little but opposition since the 40 options for improvements, half involving extensive road building, were made public last summer.

The publication of the interim stage 2a reports inspired an unlikely display of common purpose between the Labour-controlled Association of London Authorities, and the Conservative London Boroughs Association, which are still continuing in their alliance.

The LBA says it is in broad sympathy with the ALA and is very concerned that the studies show "scant regard for environmental issues." For example, some of the route options suggest new roads over the South London "green chain" - a continuous walkway of green spaces through Bromley to the Thames.

"Some routes cut the green chain and drive motorway through it," said Mr Simon Randall, chairman of housing and works for the LBA.

Both organisations, together with Alarm, are campaigning to have the studies abandoned before the options for action become firm proposals in the summer, when the consultants are due to deliver the second stage, known as 2b.

Meanwhile, stage 2b is under preparation. The consultants are supposed to be conferring with local boroughs, transport operators and police. But the ALA says it is only attending the infrequent meetings to make sure the consultants are working with accurate data. The meetings, held at the department, were simply a matter of routine, and are now suspended, it says.

In spite of the boroughs' wishes to see the studies dropped, Mr Paul Channon, the Transport Secretary, is to decide by Christmas which of the "wilder options" are to be ruled out and which are to be made firm.

The department argues that new roads will reduce road casualty figures, which are higher in London than anywhere else in the country. It says that campaigners, such as Friends of the Earth, are scaremongering by putting out leaflets referring to proposed trunk routes as "motorways."

Mr Michael Goodman, leader of Hammersmith and Fulham council, says it is a "despicable and perverted" argument to use road accident statistics to justify building new roads - which quickly reach overcapacity and become dangerous.

Mr John Wakeham, a councillor at Camden and chairman of the ALA's planning and transport committee, agrees that the road safety argument fails to convince.

"The way to reduce road traffic is to shift it to public transport, which is safer, but virtually ignored by these studies."

The authorities say they will never be convinced by the department's plans. "They are looking at building new roads along areas of land where roads have never been in the past. Any new road needs to be justified," says the LBA's Mr Randall.

However, the department has already spent £7m on the studies, and is prepared to spend, at the outer limit, £3.5bn on building the new roads. It has a responsibility to support economic growth and industry by reducing congestion, and consequently says its plans are justified.

Placards say it all: demonstrators unite in Hyde Park yesterday to rally against government road plans.

Final Channon move to delay EC plan for heavier lorries

By Tim Dickson in Brussels

MR PAUL CHANNON, the Transport Secretary, will make a final attempt today to convince other EC countries that heavier lorries should be kept off British roads until at least the late 1990s.

The EC Transport Council, which begins in Luxembourg this morning, looks like being his last chance to head off the proposal that Britain and Ireland harmonise maximum lorry axle weights by the end of 1996 - a deadline at least two years earlier than what is thought to be acceptable to the UK.

The issue has come to a head after agreements in March on common EC limits for two, three and four-axled lorries.

EC ministers at the time decided to postpone a decision on the timetable for introducing the limits in Britain and the Irish Republic - as well as on what to do about a previous British "grace period" for five and six-axle lorries.

The feeling among member states is that the matter must be resolved at this week's meeting.

Although a defiant Mr Channon appeared to be fighting an uphill battle in March, EC officials and diplomats were wary of predicting the outcome of today's negotiations.

The Government has been lobbying hard to persuade others that a good 10 years of investment are required to strengthen British bridges - and longer in the case of those under the responsibility of local authorities.

There has been talk of a new compromise from the Spanish presidency of the EC, possibly as part of a deal with the French.

The axle weight issue is just one of several key items to be discussed at the two-day meeting.

● Proposals by the European Commission for a common EC breathalyser limit are likely to run into opposition from the UK, Germany and Denmark on the ground that the EC has no competence in the field of road safety. Several other member states also believe the 0.5ml suggested limit is too low.

● The plan to make it compulsory to wear seatbelts in the back of cars is also unlikely to find enough support this time. The proposal, however, to harmonise minimum tyre tread depths at 1.6mm against the 1mm typical in most member states might squeeze through.

NHS reforms 'stress cost not quality'

By Alan Pike, Social Affairs Correspondent

THE GOVERNMENT'S health care reforms envisage a trend towards a system in which "the dominant processes will be related to costs," the National Consumer Council says today.

It is disappointing, the council says in a submission to Mr Kenneth Clarke, Health Secretary, that little mention is made of the counterbalancing need for incentives to improve quality.

There was a danger that the responsiveness and comprehensive nature of the National Health Service "may be undermined by a tendency to judge success in providing a service by success in meeting tighter budgetary constraints."

The council argues that the Government's proposals should be subjected to a few strictly controlled pilot studies, with the results published and widely evaluated. That reflects the position of the British Medical Association.

Although Mr Clarke has accepted that the introduction of the changes will be evolutionary, he says he will not allow pilot studies to become a weapon for blocking the reforms.

The council's fears about excessive concentration on the costs of health care are taken up in a pamphlet published by the Office of Health Economics today. It warns that it could be dangerous to produce more detailed NHS budgets based on cost considerations alone while there is still too little information by which to judge the effectiveness and outcome of treatment.

For the first 20 years after the NHS was founded, says the OHE, it was considered sufficient to justify the steadily mounting expenditure on the service by pointing to obvious increases in medical activity, without needing to assess the efficiency of that activity. During the 1980s a quiet revolution had started to rectify that and introduce proper principles of economics and management into the service.

The white paper Working for Patients, in spite of the controversy it had generated, was no more than a further step in this overall process. There was still a long way to go before economic efficiency in the NHS was generally achieved.

Although the principle of trying to measure outcomes of treatment, rather than just the quantity of health care activity, was now well established, the methods for doing so remained at a tentative stage. More than anything else, says the OHE, time would be needed to overcome potential difficulties.

From that, it appeared that the Government's timetable for implementing its white paper proposals by 1991 or 1992 might prove unrealistic.

Measurement and Management in the NHS. Office of Health Economics, 12 Whitehall, London SW1A 2DY. £1.50.

Outhwaite makes £64m cash call to meet losses

By Patrick Cockburn

RHM Outhwaite, the Lloyd's underwriting agent, is to ask the 1,614 people who backed two of its insurance syndicates in 1982 for a cash call of £64m because of heavier-than-expected losses last year.

Mr William Bloxham, chief executive of Outhwaite, said the cash call was necessary because "a small number of very large contracts have deteriorated very significantly."

These, as in previous years, related to contracts written in 1982 which reinsured other Lloyd's syndicates. Those, in turn, had written policies in the US covering asbestos and pollution risks.

Explaining the escalation in forecast losses stemming from these contracts, Mr Richard Outhwaite, who heads the syndicate, said in RHM Outhwaite's annual report that the notification of expected claims "received in February and March of this year were generally much worse than any prediction, however pessimistic, could have forecast."

He later confirmed to a press conference that he had raised his forecast of gross claims facing the 1982 members of the syndicate 317/661 from £262m to £304m.

The £64m sum was finally agreed on Friday at the second of two meetings that were convened last week between Outhwaite and 102 members' agents representing the Lloyd's members or "names" whom they had introduced to RHM Outhwaite.

Names were being contacted over the weekend to hear details of what they will be asked to pay.

At an earlier meeting, the members' agents had asked for a smaller cash call than the full £76m loss for 1982 recorded last year.

Mr Bloxham said that Outhwaite was hopeful that the losses in some areas would ultimately prove smaller than had been expected.

He said Outhwaite's optimism was based on an arbitration award by Lord Wilberforce. Mr Bloxham believed that that meant that where the insurer had sought to keep down costs by a voluntary agreement with clients over how much money they were to receive, the reinsurer was not necessarily legally obliged to meet claims.

He added, however, that although the final liability of the syndicates might be re-examined in thousands of cases, RHM Outhwaite could provide no hard evidence to the agency's auditors, Ernst and Whinney, that final losses would be reduced.

Outhwaite says it has agreed with Lloyd's not to talk about a rescue plan for the 1,614 members of the 1982 syndicate drawn up by Lord Havers.

This is believed to involve a loan from Midland Bank being paid into an account in Bermuda through C. E. Heath, the insurance broker.

But the 28-strong Council of Lloyd's is reluctant to back the rescue plan. According to Mr Bloxham: "Thus far they have not said they will get involved."

Managers find share options lucrative

By Clive Wolman

GRANTING share options to senior managers in the run-up to a stock market flotation has become one of the most lucrative forms of tax-privileged remuneration, a survey published today suggests.

The 122 companies that joined the stock market in 1988 form the subject of the survey which was carried out by Mr David Cohen, a partner of the City solicitors firm Paisner and Co.

The survey shows that the price at which the shares were floated on the stock market was on average 2.3 times the price at which the options were granted to the managers a few months previously. In cases in which more time elapsed between the granting of the options, the average flotation price was 3.6 times the price at which the options were granted.

According to the report, two managers made more than £1m in profit as a result.

They were Mr David Southworth of the microcomputer firm P & P, who made £1.63m, and Mr Colin Brooks of the property developers the Rockfort Group, who made exactly £1m.

Options on P & P shares were granted at a price of 12p in January and February 1987 and the shares were floated at 175p in April 1988. The options on Rockfort shares were granted at 23.3p in October 1987.

Employee Participation in Flotations. Paisner and Co, 154 Fleet Street, London EC4A 2DQ. £46.

Realities behind the greenhouse rhetoric

John Hunt on moves towards a world convention on global warming

WORLD Environment Day, which is being celebrated at the behest of the United Nations today, comes after a year when the sheer scale of the threat to the global environment suddenly seized the public imagination and spurred politicians to action.

Events to mark the occasion include seminars, award ceremonies and special TV and radio programmes. But campaigners who have been preaching the green message for many years will be trying to separate the rhetoric from the reality.

They will be assessing progress in the battle against global pollution in a year that began with widespread seal deaths and the incident of the Karin B hazardous waste ship and ended with the huge Exxon Valdez oil spillage off Alaska.

There is no doubt that increased concern has led to improvements, particularly in international co-operation. In Britain, even the sceptics concede that Mrs Thatcher's celebrated conversion to the environment last autumn was a significant turning point. It has meant that the Government is under pressure to justify its environmental commitment every time a controversy arises.

The ozone layer conference called by Mrs Thatcher in London in March has proved to be a launching pad for international action. The phasing out of chlorofluorocarbons (CFCs) which damage the ozone layer has been speeded up and the European Community and 80 countries meeting under the United Nations Environment Programme have agreed to end their use by the turn of the century.

But the success of the London conference has led to a more important development which has attracted little public attention. We are now seeing the early moves in the long process of drawing up a world convention to deal with the greenhouse effect of global warming – an immensely more difficult task than protecting the ozone layer.

Britain's enthusiasm for a convention was first expressed by Mrs Lynda Chalker, Minister of State at the Foreign Office, in a keynote speech to the Lord Mayor's banquet in April. It was embellished recently by Lord Caithness, Minister of State for the Environment, at the governing council of Unep in Nairobi.

Dr Mostafa Tolba, director of Unep, is also pushing the idea energetically, although he envisages it developing into an environmental security council with a policing role.

Differences of opinion are already emerging on how the issue should be tackled. In keeping with Thatcherite philosophy, Mr Nicholas Ridley, Environment Secretary, emphasises that the UK could not tolerate a body with supra-national powers and that there could be no overriding of national sovereignty.

After some initial dithering, President Bush has agreed that the United States should commit itself to work towards an international convention.

The great difficulty in tackling the problem of global warming arises because it is mainly caused by carbon dioxide from carbon-based fuels such as coal, oil and, to a lesser extent, gas. The carbon dioxide and other greenhouse gases form a layer that prevents the sun's heat escaping

Mostafa Tolba: council with policing role

from the earth. And the only way to reduce carbon dioxide is by cutting down use of such fuels, through energy-saving programmes or by adopting alternatives.

That means that Third World countries such as China and India, which rely heavily on coal, will be in a particularly difficult position as they develop their industries.

The industrialised countries, particularly coal-using Britain, also face a dilemma in moving away from fossil fuels. Environmentalists see huge potential in energy-efficiency measures and complain that the British Government has actually reduced its energy-efficiency programme.

On the other hand, they oppose an expanded role for nuclear energy, which is an obvious route to cutting back on fossil fuels. They were dismayed when the Downing St message from Mrs Thatcher's recent greenhouse seminar suggested that increased use of nuclear power was the way forward.

There is also dispute over the international machinery to enforce a greenhouse convention. A group of 23 countries led by France, Norway and the Netherlands, meeting in the Hague, proposed a new world environment organisation backed by the International Court of Justice. But Britain boycotted the meeting and strongly backs Unep for this role.

The destruction of the tropical rain forests is another important cause of global warming but progress towards halting that process has been disappointingly slow. Brazil outlined a plan to protect the Amazon rain forest earlier this year, including a national fund for environmental protection. It was immediately criticised as inadequate.

There has, however, been progress in other areas. An international convention to control transport and disposal of hazardous waste was agreed in principle by 100 countries at Basle in March.

The EC has acted as an engine of change. Tough US-style car emission standards to reduce polluting exhaust gases have been proposed by the Commission, to come into effect by 1993. Britain has said it will go along with that, provided the intermediate stage in 1991 is dropped.

There has also been adoption of the EC directive to reduce emissions of sulphur dioxide and nitrogen oxide from large combustion plants, mostly power stations. These substances are the main cause of acid rain.

As far as the UK is concerned, the environmental pressure groups remain dissatisfied. They argue that a reluctant Britain always has to be pushed into action by the EC on environmental protection.

Greenpeace accuses the UK Government of being in breach of its obligations to the North Sea Conference by continuing to allow dumping of sewage sludge at sea.

These charges are denied by Mr Michael Howard, Minister for Water. Britain is not the main polluter of the North Sea, he says. Although responsible for half the coastline, the UK contributes only one fifth of the pollution and is reducing it. He says 95 per cent of Britain's rivers are in good or fair condition and that no other EC country can better that record.

There was embarrassment for the Government when the Commons Select Committee on the Environment delivered a scathing indictment of its record on the disposal of toxic waste. This was rejected by Mr Nicholas Ridley in equally scathing terms.

The Government has announced plans for tighter control over local authority waste disposal plants and further plans for tougher regulation of toxic and other wastes. These will form part of a Green Bill which will be introduced in the next session of Parliament in the Autumn.

The legislation is also expected to give teeth to the system of integrated pollution control and the clearing up of litter.

The bill's publication is eagerly awaited. It will be seen as an important test of the Government's good intentions and whether it has lived up to Mrs Thatcher's boast that "We Conservatives are not merely friends of the Earth – we are its guardians and trustees for generations to come."

Airline fights Prestwick stopover rule

By James Buxton, Scottish Correspondent

AIR 2000, the British charter airline, is returning to court to challenge new government regulations requiring it to make a stopover at Prestwick airport on its flights between Glasgow and Florida.

The airline has lodged a petition at the Court of Session in Edinburgh seeking a judicial review of the Government's Scottish air traffic distribution rules, which compel transatlantic flights to and from Scotland to land at Prestwick.

Under the rules, Air 2000's flight from Glasgow to Orlando, Florida, has to fly 32 miles to Prestwick in Ayrshire before proceeding across the Atlantic. It takes on fuel at Prestwick and changes crew. The airline estimates that the extra stops at Prestwick add three hours to the journey and cost an extra £250,000 over the 26-week summer period.

The new rules were introduced as Mr Paul Channon, the Transport Secretary, rejected a request by the British Airports Authority for a review of Prestwick's status.

Air 2000 in April won a ruling in the Court of Session that the Transport Secretary had exceeded his lawful powers when he compelled the airline to make the Prestwick stopover under the 1986 rules. The Government did not appeal but brought in new rules.

Air 2000 is to argue that the new rules are *ultra vires* and that Mr Channon should not have introduced them without formally asking for Civil Aviation Authority advice.

Bond group 'close to deal' on St George's

By Hazel Duffy

BOND Corporation, the financially troubled Australian conglomerate, is thought to be close to finalising agreement with a buyer for a half share in the St George's Hospital hotel and office development at Hyde Park Corner in central London.

Last month, Mr Alan Bond said that he was seeking joint-venture partners for the corporation's main property development assets, including the St George's Hospital site.

The group has been engaged in large asset disposals in the last few months in an attempt to reduce its high level of borrowings.

Bond's acquisition of the site from Imry Merchant Developers came in two stages. In January 1988 it bought a 50 per cent share. The balance was added six months ago as part of the plan to buy into the British property market through the acquisition of prime properties. The purchase cost Bond Corporation £68.5m in total.

Imry Merchant Developers, in its annual figures reported last week, disclosed that it had made a net profit of £20m on its sale of the project to Bond.

The potential buyer is expected to be an overseas consortium with the funds available to carry through the development.

Work has already started to transform the old hospital, a listed building in one of the most prominent locations in London's West End, to a luxury hotel with an adjacent office complex.

Howe will face questions on Soviet bugging claim

By Michael Cassell, Political Correspondent

SIR GEOFFREY HOWE, the Foreign Secretary, will this week come under pressure from MPs to provide a Commons assessment of the latest state of Anglo-Soviet relationships. The pressure will follow allegations at the weekend that the British intelligence services have bugged London buildings used by Soviet diplomats and trade officials.

Yesterday, Sir Geoffrey described the claims as "a rather amateurish" attempt at news management which appeared to have failed.

He added: "It is a manifestation of what we have come to call old thinking. There are certainly signs of old thinking persisting in parts of the Soviet administration. There are more encouraging signs in other respects."

The bugging accusations were made by Mr Leonid Zamyatin, the Soviet ambassador to London, in the wake of the renewed wave of expulsions involving British and Soviet officials and journalists.

Coming less than two months after the successful visit to London by Mr Gorbachev, the fresh accusations point to some further hardening of relationships between the two countries. Even so, the view in Whitehall appears to be that such skirmishing, which publicly endorses the need for continuing caution,

Sir Geoffrey Howe: relationship assessed

does not necessarily have to be regarded as a serious, long-term set-back.

Mr Gerald Kaufman, the shadow foreign secretary, said yesterday that the latest incidents had plunged Britain back into a "cold war" atmosphere with the Soviet Union. There had been a very regrettable deterioration in Anglo-Soviet relationships.

He added: "I think if Mrs Thatcher were somewhat less strident, somewhat less bellicose, the Soviets would respond." Both sides, Mr Kaufman added, bore responsibility for the situation and both sides had to respond.

According to Soviet officials, a number of listening devices were discovered in the walls of their trade mission in Highgate and in the West Kensington homes of several officials. A formal protest, calling on the British government to end what the Soviets called "provocative conduct", was delivered to the Foreign Office.

The allegations were at once rejected by Sir Patrick Wright, the permanent secretary at the Foreign Office, after a meeting with Mr Zamyatin. He told the ambassador that the type of listening devices involved, described by Sir Geoffrey as "rather antique objects", were widely available both in Britain and the Soviet Union.

Yesterday, Izvestia, the Soviet government newspaper, added to the allegations by claiming that two people may have died as a result of radiation emitted by the high-frequency bugging devices.

Labour will renew its offensive

By Michael Cassell

LABOUR will this week renew its attack on the Government's economic strategy and attempt to expose what it sees as the continuing differences between Mrs Margaret Thatcher and Mr Nigel Lawson, the Chancellor.

After a weekend in which both main parties, as part of the run-up to next week's European elections, launched increasingly personalised attacks against their opponents' leaderships, Labour is to use its own Commons time on Wednesday to force Mr Lawson to defend his handling of the economy.

Mr Neil Kinnock, the Labour leader, told an election rally in Manchester yesterday that the Government had destroyed British industry, unleashed a credit surge, encouraged imports and was now determined to give Britain "another clobbering" with the highest interest rates of any industrialised country.

With speculation still rife over the Chancellor's fate in the next ministerial reshuffle – many of his cabinet colleagues still believe he is likely to remain in his present job until next year – Labour will again try to highlight differences between the Prime Minister and some of her senior ministers on monetary policy and membership of the European Monetary System.

The Opposition's attack on the Government's economic record was overshadowed last week by the controversy surrounding the angry reaction in a radio interview with Mr Kinnock, when he was asked to spell out Labour's formula for resolving the present economic difficulties.

Mr John Smith, the shadow chancellor, will lead this week's Commons attack. Labour intends to attack the Government over its high interest rate policy and hopes that it can use the occasion to force the Chancellor to demonstrate his continuing differences with Mrs Thatcher over economic strategy.

During a weekend of campaigning for the Euro-elections, Sir Geoffrey Howe, the Foreign Secretary, claimed that Mr Kinnock was unfit to be Prime Minister, while Mr Kinnock accused Mrs Thatcher of being unable to comprehend European unity.

Montupet given £37m to set up in Belfast

By Hazel Duffy

MONTUPET, the French car components manufacturer, was paid £37.6m by the UK Government earlier this year to help set up its new operation in the former De Lorean car plant in Northern Ireland.

Montupet announced its intention to invest in west Belfast last December and the assistance was paid in the first three months of this year. It need not necessarily comprise the total package of aid agreed between the Government and the French company, which the Northern Ireland Office refused to disclose.

British Business, the Department of Trade and Industry official magazine, lists the payment, along with others to companies in Northern Ireland, simply as "a first payment".

The De Lorean plant had been empty for years after the collapse of the US sports car operation. The Government is still trying to recover some of the money that it paid to De Lorean.

It was a measure of the desperate need for jobs in west Belfast that there were no critical voices at the time of the announcement, in spite of memories of De Lorean. Montupet said it would employ 920 people in the aluminium foundry making cylinder heads, mainly for Ford's new engine plant at Bridgend in South Wales. Another 110 people will be employed in a toolroom operation elsewhere in Northern Ireland.

New facts on job creation in the province, to be published this week by the independent Northern Ireland Economic Research Centre, will show that jobs set up by locally owned companies have proved much more durable than investment attracted in from Britain and overseas.

Over half the companies that moved into the province before 1973 have left.

Since the early 1980s, the Government has tightened up on the information and reporting procedures required from companies receiving aid.

Assistance in Northern Ireland is now all discretionary, as in the rest of the UK.

Satellite TV slow to attract interest

By Raymond Snoddy

SATELLITE television is making painfully slow progress in the UK, with the proportion of the population saying they will definitely join the satellite revolution actually declining, according to the latest Financial Times Satellite Monitor.

At the end of May, four months after the launch of Mr Rupert Murdoch's Sky Television, an estimated 93,000 homes in Britain had their own receiving dishes, an increase for the month of May of just 12,000, compared with an installed total of 81,000 by the end of April.

As the total of older dishes of larger than 1 metre remains constant at around 30,000, that means that the installation of the small 60cm Astra dishes has risen from 28,000 in March to 63,000 in May.

Mr John Clemens, managing director of Kennington Research, which interviewed more than 4,000 adults for the Financial Times last month, said: "The overall picture emerging is not encouraging."

The actual number of dishes found in the sample – five large dishes and 11 small – is so small that the margin of error is probably plus or minus 20,000 homes. Kennington Research says it is confident, however, that the true number of homes receiving direct satellite broadcasts is between 70,000 and 110,000 - well under 1 per cent of all British households.

At the same time, the number of households saying they definitely intended to instal equipment dropped from the April high of 4.7 per cent to the February and March level of 3.6 per cent, or 775,000 households, a 23 per cent slide.

The drop, which was concentrated in the final two weeks of May, may have resulted from publicity given to setbacks such as the cancellation of Sky Television's plans to launch the Disney Channel in the UK and the postponement of the rival satellite service from British Satellite Broadcasting until the spring. Pearson, publisher of the Financial Times, is a member of the BSB consortium.

"Enthusiasm now needs to be rekindled and public confusion allayed by singleminded marketing," Mr Clemens argues.

"The opportunity exists for Sky now to do this as BSB is out of the market until the spring of 1990. This, plus the lead-up to Christmas, may possibly give Sky the chance it needs to build up the market," Mr Clemens says.

With those who say they will probably instal satellite television some time added to the "definites", the total market potential now stands at 19.3 per cent or 4.14m homes. That compares with 18.2 per cent or 3.9m homes in February/March, and 20.4 per cent or 4.38m homes in April.

In addition to its four-channel direct service, Sky Television is available to a further 100,000 homes via cable television networks. If the expensive older dishes are discounted, the market for Astra channels is primarily coming from blue-collar workers: the C2DS households of market research account for 70 per cent of total Astra installations to date. The AB professional and managerial groups, who make up 19 per cent of the population, account for only 6 per cent of the installed Astra dishes.

Regionally, there is a clear bias to the south and Greater London, which has 35 per cent of the population but 54 per cent of satellite installations.

A comparison between the last two weeks in March, when the total market potential stood at 20.77 per cent or 4.5m homes, and the same period in May, shows that from May 15 to 28 total market potential for satellite television was down to 16.9 per cent or 3.6m homes.

In May, 1989, Kennington Research, on behalf of the Financial Times, interviewed by telephone 4,065 individuals aged 15-plus. The sample was weighted by age, social class, sex and tenure to be representative of the total GB adult population.

MR RUPERT MURDOCH has dropped a lawsuit against the Walt Disney Company over its alleged refusal to launch the Disney Channel for children on his Sky satellite TV network in Britain.

Sky Television, part of Murdoch's News Corporation, said Disney was no longer obliged to start up the channel, which would have been Disney's first such overseas satellite venture.

The network had claimed in a $1.5bn breach-of-contract suit, filed in Los Angeles Superior Court last month, that Disney had refused to honour an agreement for the children's channel or reimburse its costs. Disney has said the suit had no merit.

Sky, announcing that it had agreed with Disney to dismiss the court action, said it would buy Disney's 50 per cent interest in the joint venture, including a half stake in another channel, Sky Movies.

According to the statement, Sky Movies, which is already operational, will continue to serve as an outlet for Disney's Touchstone and Hollywood Pictures films.

Long-term interest rates 'should be left to rise'

By Simon Holberton, Economics Staff

TO SUPPORT the pound and bear down on inflation, the Treasury should suspend its policy of fully funding the public-sector borrowing requirement and allow long-term interest rates to rise, according to Greenwell Montagu, the UK gilt-edged broker.

Mr Roger Bootle, its chief UK economist, says the current economic situation "is so serious that the time has passed for the arrogant or ideological dismissal of policy options, other than the ones currently employed."

The Government's budget surplus takes money out of the economy and the full fund policy seeks to replace it by the Bank of England buying back from private investors and British government securities, mostly gilt-edged stocks. Mr Bootle says that gilts purchases have artificially depressed long-term interest rates.

The suspension of the full fund policy would have three beneficial effects, Mr Bootle believes:

- Higher long-term interest rates would attract more stable foreign capital to finance Britain's current-account deficit and support the pound;
- Higher rates would absorb some of the liquidity of domestic institutions while weakening equity prices and raising the cost of capital;
- Higher rates would prevent companies and individuals from avoiding the Chancellor's tight-money policy by borrowing long-term.

Pay 'will increase faster than profits for 1-2 years'

By Alan Pike, Social Affairs Correspondent

PROFITS in the UK economy may rise more slowly than pay for a year or two, Mr Christopher Johnson, chief economic adviser to Lloyds Bank, suggests today. He says margins will be squeezed but will then recover.

During most of the 1980s, profits have risen faster than pay. But pay caught up last year, with wage rises accelerating and profits slowing down to a growth rate of about 11 per cent.

Profits per unit of output have been rising faster than labour unit costs during the 1980s after rising at the same rate in the 1970s, Mr Johnson says in the bank's monthly economic bulletin.

"The return on capital has risen since 1981 to 7½ per cent, back to the level of the early 1970s, due in equal measure to the rise in the productivity of capital, and the increase in the share of profits in the national income," he says.

The UK's return on capital needed to be further improved by continuing to raise the productivity of capital rather than the share of profits in the national income. That would result in the earnings of both labour and capital rising faster, but at about the same rate.

- Assumptions that North Sea oil supplies are rapidly running out are false and new discoveries and developments should keep the UK "self-sufficient for a good many years to come," says the June issue of the Treasury's Economic Progress Report.

APPOINTMENTS

Prudential board posts

■ Mr Colin Southgate, *chairman and chief executive* of Thorn EMI, has been elected a director of PRUDENTIAL CORPORATION. Lord Hunt of Tanworth has been re-elected chairman, with Sir Trevor Holdsworth and Sir Alex Jarratt as joint deputy chairmen. Lord Carr of Hadley and Mr Desmond Craigen have retired from the board.

□ HALL ENGINEERING (HOLDINGS) has appointed Mr Peter Wilkinson as managing director of Hall & Pickles, replacing Mr John W. Brass who has retired. Mr Jerry Troth is promoted from financial controller to finance director at Stadco.

□ Mr David Morgan has been appointed company secretary of ROYAL INSURANCE HOLDINGS. He was deputy company secretary at Sun Life Assurance Society, and replaces Mr John Barber, who has been appointed assistant general manager (operations) of Royal Reinsurance. Mr Roy Randall has been appointed head of group corporate relations at Royal Insurance Holdings.

□ Mr Gerald Kaye has been appointed a director of LONDON & EDINBURGH TRUST. He is chief executive of LET Offices.

SMITHS INDUSTRIES has appointed Mr Christopher Taylor *(above)* as financial director designate, to succeed Mr Alan Hornsby in mid-October when he retires. Mr Taylor was group financial director of William Collins.

□ ROYAL BANK LEASING, Cheltenham, has appointed Mr Tom Carr as sales and marketing director. He was senior manager in charge of special projects at Lombard North Central.

□ BLUEBIRD TOYS has appointed Mr Paul Humphreys as managing director of Bluebird Toys (UK), and to the main board as an executive director.

□ CAPEL COURT POWELL, Australian stockbrokers, has opened a European office in London, and Mr Roderick A. Chamberlain and Mr Bruce C. Hervey have been appointed directors.

Independent member for AMP/London Life board

■ Following the first annual *meeting of newly-merged AMP/* London Life Mr John Sadler, recently retired deputy chairman of The John Lewis Partnership, has been appointed an independent member of the UK board. Mr Brendan McBride has been made London Life Fund actuary. Mr Andrew Wakeling, financial controller of London Life, transfers to AMP New Zealand in September as deputy chief manager. Mr David Anderson, chairman, AMP principal board, retires at the end of January, and will be succeeded by Sir James Balderstone.

□ *STEEL BURRILL JONES* GROUP, following the offer for Devitt Group becoming unconditional, has appointed Mr Jeremy Davies, Mr David Forcey, Mr John Horwell, Mr Anthony Meacock and Mr Nigel Rice as directors. Mr Horwell becomes deputy chairman.

□ STIEBEL OF *NOTTINGHAM*, part of the Tootal Group, has appointed Mr David Smallridge as *managing director.*

Mr Seamus Kehoe *(above)* has been appointed sales and marketing manager of the General Practice Finance Corporation, recently acquired from the Government by NORWICH UNION.

■ Mr Alan Paterson has been appointed *regional director* of BALFOUR BEATTY HOMES (SCOTLAND). He was technical manager.

■ Dr John Marriott has been appointed a director of COURTAULDS CHEMICALS, with special responsibility for pharmaceuticals. He was research manager, and is succeeded by Mr Paul Law, who was a group manager.

■ Mr Patrick Howard has been appointed to the new post of director, gilts and institutional coverage, NATWEST CAPITAL MARKETS, from June 12. He joins from Panmure Gordon, where he was director, gilts department.

■ Mr Peter Rose has joined CITIGATE COMMUNICATIONS as a director, corporate division. He was deputy director of information at the Home Office.

■ Mr Lindsay Mackinlay, who was an executive director of Rowntrees, has been appointed a non-executive director of STEETLEY. Mr John Kerridge, chairman and chief executive of Fisons, retires as a non-executive director.

■ Mr Bill Gissendanner has been appointed to the group board of ELLIS & EVERARD. He is chief executive of the group's US operations, and will continue to be based in Atlanta, Georgia.

■ NATIONAL BANK OF KUWAIT has appointed Mr George Dennis to head international fund management in London, and *to oversee the operations of* its two European-based investment management subsidiaries as managing director.

■ Mr T.L. Smith has been appointed managing director of KILLBY & GAYFORD (HOLDINGS). He will continue as managing director of Killby & Gayford (Building).

■ HAYS MARINE SERVICES *has appointed Mr Duncan* Hempstock, managing director of Crescent Shipping, as *assistant managing director.* He is succeeded by Mr Alan Petrie. Joining the board are Mr John Tait, as technical director, and Mr Sid Cass, who becomes managing director of Crescent Wharves.

Corporate finance advisory post

Mr Miles Emley is joining the corporate finance department of UBS PHILLIPS & DREW in *London as a managing director*, writes David Lascelles, Banking Editor. Mr Emley, *who was formerly with Roths*childs, will be head of UK corporate finance.

The appointment marks a further stage in UBS Phillips & Drew's plans to develop its *corporate finance advisory* business alongside its existing strengths in banking and brokerage.

Mr Emley said he believed UBS Phillips and Drew marked *one of the last opportunities* that would be available for some time to contribute to the *building of a serious corporate* finance arm of an international investment banking business.

Mr Stephen Brisby, the vice-chairman in charge of corpo*rate finance, said he saw con*siderable scope for the expansion of the business, both in *the UK corporate market and* in cross-border merger and acquisition work.

Changes at Pizza Hut

■ From July 1 Mr Wess van Reimsdijk becomes *chairman* and chief executive officer of PIZZA HUT's French and Dutch operations. He is succeeded as chief executive officer, Pizza Hut UK, by Mr Stewart Miller, director of operations. Mr Chris Kelly, *regional operations director,* will become director of operations. Mr van Reimsdijk *remains on the UK board.* The UK Pizza Hut franchise is held jointly by Whitbread and Pepsico.

□ *Mr John Porter*, general manager, has joined the board of DEBRETT'S PEERAGE.

■ Mr Alan H. Burt has been appointed business development director of WIMPEY CONSTRUCTION MANAGEMENT.

■ Mr Thomas Redfern, company secretary and group legal adviser, has been appointed to the board of H. YOUNG HOLDINGS.

□ Mr David Bean has been appointed export director of KALON GROUP. He joins from Laporte Industries.

■ SWISS LIFE INSURANCE AND PENSION CO has appointed Mr Chris Ide as general manager for the UK.

■ Mr Michael Woodall has been appointed managing director of AVCO TRUST.

■ Lord Rayne, chairman of London Merchant Securities, and deputy chairman of First Leisure Corporation, has joined the board of THE LONDON JAZZ RADIO.

■ BRINTEX has appointed Mr Michael Allsopp to the board, to be responsible for food and drink exhibitions.

■ Lord Derwent, managing director of Hutchison Whampoa (Europe), has been appointed chairman of the LONDON AND PROVINCIAL ANTIQUE DEALERS' ASSOCIATION.

■ *Mrs Lee Ann Thompson* has been appointed a senior assistant director and UK marketing manager of COUNTY NATWEST INVESTMENT MANAGEMENT. She joins from Irving Trust Co.

■ Mr Christian A.A. Mineef has been appointed chief executive and managing director of HARRISON & JONES (HOLDINGS), Manchester, UK arm of Recticel NV. He was managing director of Kay-Metzeler.

LEGAL COLUMN

Taking a fresh look at solicitors' insurance

By Robert Rice

SOME 18 months after abandoning its Master Policy scheme in favour of a statutory mutual fund, the Law Society is again reviewing its arrangements for providing professional indemnity to solicitors.

The view of the society's standards and guidance committee, which has been looking at the issue, is that, for the moment at least, the maintenance of a statutory fund remains the most appropriate means of providing cover.

Any consideration of a return to a Master Policy scheme would be premature, it feels. Such a sweeping reversal of policy after so short a time could be interpreted by the market as an indication that the profession regarded the insurance of its own civil liabilities as being a poor risk.

That would not create a climate in which attractive terms could readily be achieved and premiums would again include an element of underwriting profit which the move to a mutual fund was designed to avoid.

Requiring solicitors to take out and maintain insurance with authorised insurers is still regarded as an attractive option by many firms, on the basis that the only true test of the risk posed by a particular firm is the placing of that risk on the commercial market.

The danger of that approach, however, is that some firms would be unable to secure cover at all, or only on terms that were prohibitive. The decision as to whether a solicitor could practise would effectively rest with insurers, a state of affairs which the society would regard as unacceptable.

If indemnity were to be provided by authorised insurers, a "safety net" fund would almost certainly have to be set up by the profession to protect the public in those cases in which the insurers repudiated liability and the solicitor was unable to meet the claim. So any benefit accruing to individual firms from the freedom to arrange their own indemnity cover would be eroded by the requirement to contribute to the safety net fund.

A significant imbalance in contributions

The committee also looked at the question of whether, as a long-term option, the existing fund should become an insurer. That would require the Solicitors' Indemnity Fund Ltd to change its status from a fund established under the Solicitors Act to become an authorised insurer.

The main advantage would be the ability to underwrite risks enabling contributions to be based on an assessment of the risk presented by an individual firm or solicitor. And there would be the additional advantage that contributions would not attract VAT.

But the chief disadvantage of converting would be that substantial reserves would have to be built up to provide the solvency margin necessary to secure authorisation under the Insurance Companies Act. Such contributions could only be built up by increasing significantly the premiums paid by solicitors to the fund.

Hence the decision to stick with the existing mutual fund for the time being. The problem is that the SIF is far from perfect, not least in the significant imbalance in contributions to the fund that it provokes.

To assess whether an imbalance exists, firms are classified by numbers of partners. The majority of the profession is in firms in which there is a broad balance between the contribution to the fund and claims paid out.

The exceptions lie at the top and bottom of the scale. At one end, sole practitioners contribute 9.12 per cent of the income of the fund, but account for 16.2 per cent of amounts paid out. By contrast, firms with more than 25 partners contribute 14.32 per cent of the income of the fund, while accounting for 7.8 per cent of claims paid.

Correcting that imbalance is no easy task. The society accepts that relating contributions to risk necessarily involves an element of rough justice. A judgmental rating of individual firms or solicitors would have a flavour of underwriting and would be outside the fund's powers.

It can also be argued that one purpose of the fund is to uphold the good name of the profession as a whole. Inevitably, that involves the cost of providing indemnity to the bad, or even uninsurable, risk being borne in part by those who are blameless.

There are wider policy issues to consider

Then there are wider policy issues to consider. The profession as a whole has supported the principle of maintaining a network of local solicitors' offices around the country to provide the widest possible access to legal services to the public. Sole practitioners are an important part of that network.

The society's governing council would have to think very carefully before deciding that indemnity should only be offered to sole practitioners on terms which would increase their overheads to the point where it became uneconomic to continue in practice.

Statistically, it says the under contribution to the fund by sole practitioners could be corrected by increasing their contributions by 80 per cent. Unless the society wishes to be seen as the instrument of their demise, clearly such an option is unrealistic.

It has opted instead for a strategy of reducing the amount paid out in claims arising from sole practitioners by increasing their self-insured deductible and by increasing the scope of cover in a way that will benefit the larger firms most disadvantaged by the imbalance at the moment.

An increase in the self-insured deductible for sole practitioners has the advantage that the burden falls on those who claim. An increase to a minimum of £2,000 per claim would have the equivalent effect on the imbalance of an increase of 15 per cent in sole practitioners' contributions.

The society also wants to increase the existing cover of £500,000 for each and every claim, to £1m. The cost of this would be an increase of roughly 9 per cent in contribution rates. But if introduced together with the increase in the minimum self-insured deductible to £2,000 in all cases, the net increase required would be about 7 per cent.

While most firms will pay more in contributions as a result of an increase in gross fees, this plan has the added advantage that it would not necessitate an increase in contribution rates this year to maintain the status quo.

The society is well aware of the adverse effect of the imbalance on larger firms, but it feels that its proposals for the current year will benefit them by reducing the amount of top-up cover they have to purchase, and, in particular, by making that reduction in what is normally the most expensive slice of cover.

For the future, it will look again at the adequacy of contributions by sole practitioners. It has asked the board of SIF Ltd to consider whether it would be possible to classify sole practitioners more exactly by the type of work they do and to increase contributions for those classes of sole practitioner doing the types of work more likely to give rise to claims.

Then there are always the issues relating to professional indemnity which will have to be addressed if the green paper proposal to allow multidisciplinary partnerships goes through.

LEGAL APPOINTMENTS

Financial management

Juggling with 850 per cent inflation in Brazil

John Barham on companies' valiant efforts to outflank economic gyrations

How do companies survive, indeed flourish, when inflation is extremely high? Against huge odds, Brazilians have become past masters at living with and profiting from their country's chronic inflation.

In 1988 prices rose a record 934 per cent. The previous year inflation was 366 per cent, also a record. Now the inflation rate has temporarily subsided to "only" 8 to 9 per cent a month. Forecasters still expect inflation of at least 850 per cent this year.

But inflation is only one facet of a wider economic crisis. Businessmen must also cope with unpredictable lurches in government policy, decayed infrastructure and an ever present risk of sudden economic collapse. A handbook on inflation by Price Waterhouse, the international auditing firm, says drily: "Doing business under high inflationary conditions means exposing oneself to a great risk of failure."

Inflation magnifies the effects of even the smallest mistake or mistimed decision. A slip-up can cost a company its market share and hence its profitability. When a company loses market share, it also loses the ability to impose frequent price increases, and its margins wither.

So high inflation demands rigorous financial and management discipline. Businessmen must be absolutely ruthless in wringing every penny out of their operations. All product lines must become profitable, all clients must generate profit and all waste must be eliminated. Companies that have survived this far are fit enough to make it through almost anything.

The best organised companies have extremely tight financial controls. Dupont, which operates a $250m subsidiary in Brazil, is a typical example. Henriqué Ubrig, Dupont's vice president for finance and operations, says: "Our philosophy is to have a zero cash balance. Unfortunately we still have to sell in cruzados so we still have some exposure to inflation."

Dupont shields itself from inflation by using all income either to remit dividends or to invest in industrial projects. Any surplus cash is immediately used to reduce local debt. Dupont protects its liquid cruzado assets with bank overdrafts. It draws on short term credit lines when its cruzado payments exceed receivables and uses spare cash to reduce the overdraft. Its pristine credit rating commands the lowest interest rates on the market, around 15 per cent a year in real terms. On average, Dupont never holds more than the cruzado equivalent of $10-15m in any given month.

Brazilian companies usually adopt a less complex strategy. They simply deposit surplus cash on the overnight money market, which pays interest slightly below the rate of inflation. Chase Manhattan bank says that at best, overnight market rates have maintained an investor's capital over the past six years.

Since inflation gradually makes money worthless, all transactions have to be indexed. Traditionally, the government has provided a monthly indexation rate, which none the less underestimated inflation. Last year it even had to introduce a daily rate. But in January it abolished indexation altogether in a desperate effort to stamp out inflation. It had to reintroduce an indexer in May.

Inflation foreshortened time horizons. Companies raised prices faster and faster and demanded to be paid sooner and sooner. Suppliers now require payment within, at most, 30 days and tack indexation and interest charges on to their invoices. They offer discounts for early payment, but charge punitive fees of 3 to 4 per cent per month over inflation for delays.

Suppliers and clients are in constant, and sometimes acrimonious, negotiation over their contracts. Companies with the best reputation for cash management are invariably the slowest to pay but the most implacable in enforcing prompt payment.

Stocks are generally held to a minimum, to reduce financial costs and exposure to inflation. Last year companies renewed their stocks every 90 days, on average. At the moment, they are renewing stocks every 45 days. Very often, however, stocks, like other tangible assets, provide as sound a hedge against inflation as the most sophisticated financial operations.

Constant price adjustments may maintain margins and keep companies well placed in case of a sudden change in economic policy, but they also make the government's anti-inflation measures less likely to work. Businessmen expect the government's next assault on inflation in August.

Yet inflation does have the virtue of enforcing efficiency. Many Brazilian businesses have set up computerised systems which detect changes in prices, costs and margins and enable managers to make immediate adjustments to maintain their margins. And companies always seem to find ways of reducing costs. Dupont claims it has increased productivity by over 15 per cent a year for the past four to five years.

That is one reason why Brazilian companies still make money. In 1988, they earned an average 10 per cent return on net worth – astonishing under the circumstances.

Large companies are also well advised by a broad range of experts to alert them to possible government policy changes, new tax dodges and investment opportunities. But when the government introduced a Summer Plan, its latest anti-inflation policy, it punished companies that had been cautiously hedging against inflation by investing in federal bonds when it reduced the paper's real value by adjusting its indexation formula below inflation.

Sound advice is essential under a government that has gone through four finance ministers in four years, adopted five different economic policies since 1985, and introduced two new currencies since 1986. That is why consultants tell their multinational clients to make sure they have a Brazilian finance director. It takes a Brazilian to predict and react to sudden, radical changes.

Most companies were ready for the Summer Plan and evenly absorbed the price controls that came with it. The 1986 Cruzado Plan, Brazil's first such shock policy which changed the currency from the Cruzeiro, caught many of them by surprise. It hurt companies with products that were already under government price controls, such as the car and drug industries.

Most companies have some products under permanent government control. Not only do the bureaucrats try to set prices as low as they can, but as inflation rises, so does the cost of the time lag between price adjustments. However, the government has also been known to award larger increases than necessary, by mistake. Companies so blessed stand to make massive profits.

Inflation makes companies export more. Competition may be fiercer abroad, but exporters are paid in hard currency. José Roberto Mendonça de Barros, a Sao Paolo business consultant, says: "Exports have grown spectacularly, not because they are more profitable, but because they are more secure." Exporters and multinationals habitually salt away part of their revenues in safe foreign banks, the best hedge against inflation there is.

Hedging has always been the top priority for multinationals. Treasurers have normally chosen gold or dollar-linked government bonds. However, government action in reducing paper's value, means that it is no longer a safe hedge.

But the volatile financial markets and unpredictable changes in regulations have made hedging almost as safe as a lottery. Sao Paolo's investment banks have identified a new market niche and are vigorously pushing sophisticated, and sometimes risky, hedging instruments.

Some are semi-legal at best. Hedging has become a form of speculation.

One American banker says: "Hedging safely used to mean you could sleep at night, but we've got to the point where opportunity costs have increased so much that you have to get into speculation." Good finance directors are in heavy demand and command vast salaries. Last month, a finance director could earn a maximum £3,800 plus fringe benefits, a princely sum by Brazilian standards. Salaries are adjusted monthly.

Previously, no multinational company would risk straying from the safest of dollar hedges. But in January, when the government cut the value of its bonds, froze the exchange rate and raised real interest rates to as high as 20 per cent per month, only the most conservative treasurers had second thoughts. They sold their dollar hedges and invested in government paper. Those that timed this right made a 34 per cent real return in the four months to April.

Risks are increasing. Presidential elections are to be held on November 15 and businessmen fear the left-wing candidate may win. The currency has begun climbing. In March, one dollar cost 1.7 new cruzados on the free currency market. Now it costs three cruzados. Investors are also becoming less willing to hold government bonds because they are afraid the next government may refuse to honour them.

The more adventurous are buying property, gold, black market dollars and even farm produce to protect themselves from inflation.

Uncertainty discourages capital spending. Arthur Andersen, the accountants, estimate that in 1988, Brazilian companies could easily have invested an extra $6bn without any trouble. Instead, they have piled up a vast cash hoard which yields more on the financial markets than any productive investment. Some companies have grown so cash rich over the years that their treasury departments now operate like small investment banks. Indeed last year, four major industrial corporations set up a real investment bank of their own.

But there are limits to speculation. Stephen Charles Kanitz, a Sao Paolo University accounting professor, calculates that companies invest no more than 2.7 per cent of their assets on the money market. Ubrig of Dupont, comments: "We do not speculate. We do not even buy gold. We are a chemical company, not a bank. It's a question of priorities."

Other companies are less persevering. Infuriated by the complexity of living with inflation, price controls and an ever-messier Brazilian economy, many multinationals have simply left the country.

Companies need the will to listen

Michael Skapinker on the benefits of corporate responsibility

West German companies have been quick to spot the UK demand for environmentally sound products, a Confederation of British Industry conference was told last week. UK companies, on the other hand, have been left floundering.

John Elkington, co-author of the Green Consumer Guide, said that British oil companies had shown environmental awareness, "but the ordinary consumer product people have been appalling. They have tended to see environmental awareness as a problem, not a market opportunity."

Yet the growth of the green movement would have come as no surprise to anyone who had kept an eye on the changing concerns of British consumers over the past few years.

So, too, companies that had maintained links with schools would have been aware of the sharp drop in the number of school-leavers.

Some of these companies have been trying to make up the shortfall in new entrants by attracting experienced female staff back into retailing and clerical jobs. They have, in the process, come to realise that child care will be one of the major issues of the 1990s.

But employers of more highly-paid staff need to deal with the problem too. They may think they pay their staff sufficiently well for them to make their own child-care arrangements. Their employees, however, are already having difficulties finding women to care for their children, regardless of how much they can afford to pay them.

How can companies anticipate such problems, thereby retaining their staff and protecting their markets against the incursions of more forward-looking competitors?

One way is to involve themselves with the community in which they operate, according to a new book. Good Business: a Guide to Corporate Responsibility and Business Ethics* argues that "one of the fundamentals which separates you from your competitors is the quality of your information. The community is awash with information, if you have the will to listen."

The authors, Sheena Carmichael and John Drummond, provide other examples of the way companies can benefit from their involvement with the local community.

By the 1970s, Honeywell, the US electronics group, had outgrown its headquarters building in Minneapolis. The building was surrounded by derelict housing in an area with few amenities. Other companies had solved the problem by moving out to the suburbs.

Honeywell decided to stay where it was and to extend its existing building. The company spent the money it saved on the local community. Together with the local authority, it helped to build houses and improve transport.

"The local authority opened an art gallery. Shops moved in. What they ended up with was an inner city which was a good place to live and work in, offices which met their needs, and a first-rate reputation in the local community. And it all cost no more than the move to the suburbs would have done," the authors say.

Companies which regard themselves as novices at community involvement are probably already doing more than they realise, the book says.

"Each branch, division or factory within your company is being approached all the time. The chances are that you are responding to these approaches, but in an undirected, unstrategic way."

The first task is to find out what you are already doing. The second is to decide what you should be doing. "Find out where your staff think priorities lie."

Having identified these issues, decide which of them are important to your company. If you are worried about the low educational standards of new employees, offer your company's help to schools and colleges. The book warns against involving the company in areas in which it has no interest. "There can be no social contract without a mutuality of interest," it says.

*Hutchinson Business Books. £15.95 hardback. £6.95 paperback

ARTS

Almeida Festival

ALMEIDA THEATRE, ISLINGTON

As always, this year's festival – with important sponsorship by Lufthansa – is an overflowing cornucopia, a month-plus crammed with music for the voraciously inquiring ear. There is nothing like it. For London music-lovers the imminent departure of Pierre Audi, who has run the Almeida and its festival with such adventurous inspiration since they were established, is a painful prospect, though from his Netherlands Opera base he will still have a hand in next year's jamboree. A main theme this time is new Soviet music, and that will be developed in 1990; undoubtedly there will be another series of the Almeida's rewarding showcases for individual composers, too, especially ones we need to be reminded about.

Special attention is given this year not only to our lively contemporaries Jonathan Harvey, John Casken (with a new opera, *Golem*), Brian Ferneyhough and the venerable Henri Pousseur, but to three others lost too early: the self-destructive Jean Barraqué (whom Max Loppert discusses below) Claude Vivier and Bruno Maderna. Maderna was celebrated by Oliver Knussen and the Almeida Ensemble in the opening concert on Friday. Dead at 53 in 1973, he had been not only a composer as much admired as, say, Luciano Berio, but a much-loved teacher and a devoted, insightful conductor of other people's music.

Perhaps his selfless respect for what others were doing denied him the bold individual stamp of a Boulez or a Stockhausen; and yet there is a transparent Maderna personality, deeply wedded to actual sound and to an ideal of unique, live performances. And also to playful exploration, unconstrained by any hankering after a brand-name style; his role among his close contemporaries was much like that of Terry Riley among the "minimalists" – a free, investigative spirit with no weather-eye on the market. Before Riley, Xenakis or even Lutoslawski, Maderna was exploring the possibilities of open-ended invention conjoined with repetitive patterns and echoes. The "aleatoric" freefall was always focused by a musical ear, and informed by a candid lyrical instinct *all'italiano*.

Of the Maderna "serenades and solos" Knussen chose for Friday, his comic settings from Boswell's *Venetian Journal* displayed the tenor Peter Hall's elegance and resourcefulness to admiration, as did the solo-violin *Widmung* for the talents of Jonathan Carney. It was a pleasure to hear the haunting *Amanda* (the Sixth Serenade) again, all tremulous precision and crystalline feeling. The rich 1972 canvas of *Giardino religioso* a whole formal garden of contrasting multi-faceted studies, seemed more than ever a serene, luminous pre-figuration of devices that junior composers were going to explore more egregiously and to far less musical effect.

David Murray

*

One of the strands in this year's prodigiously rich and diverse festival pattern is the music of the Frenchman Jean Barraqué (1928-73), one of the legendary figures of the postwar avant-garde. His tiny corpus of completed works is being allotted two Almeida "days": the first of them, in the form of Saturday's two concerts, was the responsibility of Music Projects/London and their conductor, Richard Bernas, whose particular labour of love (and Herculean) the whole Almeida Barraqué tribute may be called.

Barraqué's reputation – which Bernas, in a wise programme-book introduction, advises us to treat historically – is vastly inflated. By his supporters he was greeted at the time, and specially because of his monumental Piano Sonata (1950-52),as a so-called "answer to the Hammerklavier", as Beethoven's serialist heir. Since his death the aura of martyrdom seems to have accrued – the martyrdom of an intransigent musical idealist and isolationist, unfairly neglected and bypassed.

At a distance of time one may indeed admit to finding the composer's puritan aesthetic creed ("Music which is only beautiful is a travesty") repulsive, and the whole idea (proposed anew by Harry Halbreich in the Almeida programme) of a great composer whose greatness is accessible only to a tiny few deeply suspect, not to say bogus.

Yet the fascination of the music remains: most of it, including the Piano Sonata (played in the afternoon concert by Claude Helffer) and the Nietzsche-settings *Séquence* taking the form of a sustained, note-proliferating assault on audience ears and susceptibilities, interleaved with jagged silences. The growth and decay processes in the music are explored without the smallest concern for sound-appeal (except in the last-completed work, the jazz-influenced Concerto for clarinet and chamber group, of which the soloist Armand Angster and Bernas's players gave a marvellously lucid account on Saturday afternoon).

Argument is all, conducted with a ferocious rigour and intensity that cannot fail to strike even the most sceptical or hostile of Barraqué's listeners. The main item of the evening concert in the Union Chapel was the belated British premiere of the cantata ... au delà du hasard for three female soloists and a large chamber orchestrated made up of sharply contrasted internal groups. The great uncompleted project of Barraqué's life, a vast composition founded on Hermann Broch's magnificently dense epic novel *The Death of Virgil* this work forms the composer's "first thoughts" (the remaining two complete works are being given on 18 June, the second Almeida Barraqué day).

The focus of the work is violent visionary declamation, unremitting in its torrent. Of the full artistic thrust of ... au delà du hasard on this occasion I must admit to taking in only a hazy outline, principally because the use of amplification for the three singers kept the musical unfolding at a volume of ear-punishing loudness (was this intended or accidental?). From the first of the Barraqué days, however, it seems clear that his place on the margins of the 20th century is not undeserved: one can understand both the isolation of his position and the missionary enthusiasm of performers like Bernas.

Max Loppert

Es war einmal

RADIO 3

The operas of Alexander Zemlinsky, together with those of his contemporary Franz Schreker, are very much a flavour of the moment; European opera houses are falling over themselves to bring as many of their works as possible into the repertory, and slowly but surely they are finding their way onto disc as well.

Zemlinsky's third opera *Der Traumgörge* has recently appeared, and on Thursday last Radio 3 broadcast a tape from Danish Radio of its immediate predecessor a studio production of *Es war einmal*, sponsored by the European Broadcasting Union, which was the first performance of the score since the composer himself conducted it in 1912, twelve years after Mahler had given the premiere.

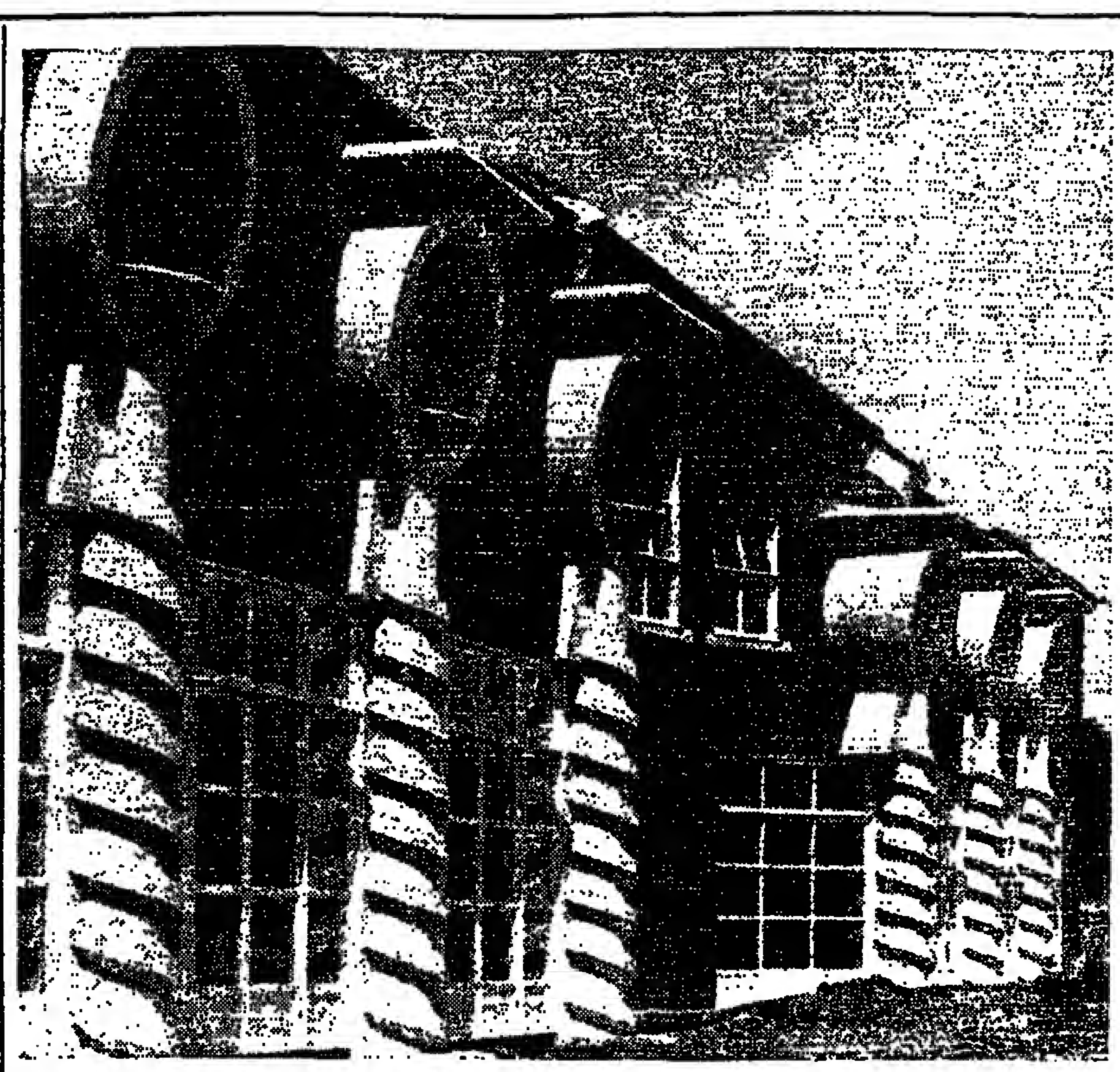
The plot, such as it is, is loosely based upon Andersen's fairy-tale *The Swineherd*, filtered through an extended Danish verse drama and a libretto by Drachmann: a haughty princess is tricked into marrying a prince disguised as a gypsy, who carries her off to a life of deprivation before all is revealed and everyone can live happily ever after. It is thin and contrived, but provides ample opportunities for grand choral set pieces and folk-weave interludes.

In general Zemlinsky's style is founded upon Wagner – *Meistersinger* rather than *Tristan* – and the influence of Humperdinck's *Hansel und Gretel* is strong. As always his own natural inclinations seem to be hidden behind a series of stylistic disguises. Because of his friendship with the Second Viennese School and the success of works like the *Lyric Symphony*, Zemlinsky tends to be pigeon-holed as a timorous expressionist. The more one hears of his output, though, the more polyglot it seems, so that his expressionism becomes just another of the many-coloured coats, tried for size and discarded when it didn't quite fit.

Es war einmal may be not strong enough, dramatically or musically, to re-establish itself in the opera house, but it contains one significant curiosity. When he prepared the first performance, Mahler took it upon himself to suggest changes to the text and music, and even went as far as rewriting the closing pages of the first act. That passage, roughly 50 bars long, turns out to be the most striking music in the score, unlike anything else in the opera or anything in Mahler's own output – a tingling transition from the knockabout farce of the opening scenes to the more serious moralising tone of the rest. It is the pivotal point of the drama.

This account, with the Danish Radio Choir and Orchestra conducted by Hans Graf, was serviceable, if a little pallid; a top-notch band might just have given the music some added bite. The King of Aage Haugland was the most striking of the solo roles, though both Kurt Westl and Eva Johansson worked hard to make the most of Prince and Princess's demanding vocal lines. An intriguing, if ultimately disappointing revival.

Andrew Clements



Piers Gough's computer studies building for Bryanston School

ARCHITECTURE

Context is the buzz word

"We are all no more than life tenants of our heritage and we have a moral duty to pass it on in as good a condition as that in which we received it." These were the words of the Prime Minister when she paid a visit to the Royal Fine Art Commission earlier this year.

They have been repeated to introduce a modest but important exhibition called *Conservation Today*, at the Royal Academy of Arts in London until June 25. It is one of the first fruits of the Art and Architecture Education Trust recently set up by the Royal Fine Art Commission. It has been funded by the Wolfson Foundation.

On a fine May afternoon I was the only visitor to this display, which seemed to be rapidly gathering dust. It deserves a wider audience and perhaps will receive one on its European tour. Is the lack of interest due to the fact that, on the whole, we are all in favour of conservation and assume, as does the Prime Minister, that it is commonly understood as a "moral duty"? Or are we now a bit suspicious of sometimes platitudinous displays of enthusiasm by an official body like the Royal Fine Art Commission? The Commission does not necessarily practice what it preaches when it comes to conservation.

But first of all, the positive aspects of this exhibition are worth emphasising. It is true that in the inner cities the remaining old or listed buildings, when renovated, often provide the catalysts for more general renewal. It is unlikely today that any city would contemplate the wholesale destruction of its historic centre as Birmingham did in the 1960's. That city seems to have belatedly seen the light in its Jewellery Quarter, where some modest old buildings have been now been successfully refurbished.

Glasgow shows, even after decades of mistakes, that it is possible for both environmental changes to take place and to retain a mainly Victorian core to the city. Princes Square, a roofed square of 19th century professional buildings, shows graphically the commercial potential of a well designed rehabilitation.

In some of the City of London's conservation areas, particularly around the Mansion House, there is immense potential for sympathetic rehabilitation.

Billingsgate Fish Market is now the headquarters of Citicorp International Banking Limited. Architect Richard Rogers and his clients coped with the effects upon the foundations of 50 years of frozen ground and the danger of a partial collapse by spending some some £40m to create 120,000 square feet of commercial offices. Sadly, the former fish market area will not be accessible to the public as there is no public access and no retail provision.

Two prominent Victorian hotels in London, The Langham and St. Pancras, are both being restored. The rehabilitation of St. Pancras, by architects YRM for developers Speyhawk and McAlpine, promises to enrich a part of London that badly needs the catalyst of a large-scale new user in a fine building. It is the quality of the original Gilbert Scott hotel and chambers that has inspired the £50m renovation.

The Royal Fine Art Commission and their exhibition advisers are on less firm ground when they come to discuss the problems of building new buildings alongside the old. "Context" is the vogue word and sensitivity to it is certainly the key for success in difficult historical locations.

The work of the architect Piers Gough wins accolades and he is rightly singled out as an instinctively gifted designer. His renowned wit comes to the fore in the new computer studies building for Bryanston School. Norman Shaw, the architect of the original country house which became the school, was himself a skilled interpreter of the historical tradition. Piers Gough has added a brilliant, small building that responds to Shaw while roaring off into the realms of Baroque fantasy. In terms of marriages of old and new Gough, both at Bryanston and in his London Dockland building at China Wharf, shows tremendous informed spirit.

There is another intelligent architect, Roderick Gradidge, who has carved a niche for himself in the design of country houses. His understanding of history, especially English architectural history at the turn of the century, is considerable.

The exhibition is accompanied by a book which is more than a catalogue (*Conservation Today* by David Pearce, Routledge, £11.95). It argues the case to prove that conservation is not reactionary and nostalgic, and that it definitely "pays." It should be widely read, particularly by property developers.

The curious fact remains that a body like the Royal Fine Art Commission can still be completely schizophrenic about conservation. Take the long running problem in the City of London about Mr Peter Palumbo's proposal to demolish eight listed buildings in the heart of the Bank of England and Mansion House Conservation areas. The Commission, in a letter to the Public Inquiry dated 16 May 1988, "warmly supports" the plan to demolish the listed building and cover the whole site with a new building.

The Secretary of State for the Environment, Mr Nicholas Ridley, is currently looking at his inspector's report and will soon have to decide whether or not to allow this scheme. Perhaps he will be reminded that the same Commission, in earlier evidence, applauded the retention of the Mappin and Webb building as a "familiar landmark."

The exhibition is clear proof that conservation and refurbishment in our older cities is the right approach, and this need not rule out good new buildings on appropriate sites where the past can act as an inspiration. But there is still a need for a more careful approach on sites close to historic buildings, and a less cavalier approach to archaeology. These important conservation problems are scarcely discussed in this exhibition.

Colin Amery

Sponsorship

At the last minute, (hypothetically speaking) the Royal Academy has found a sponsor for its mammoth autumn exhibition devoted to photography. To be exact it has got two sponsors – with Logica, the computer software company, and Midland Bank each contributing £150,000. It is Logica's first arts sponsorship so there could be an extra £25,000 under the Government's Business Sponsorship Incentive Scheme.

The Art of Photography 1839-1989 is the biggest event in the celebration of 150 years of photography. It was first mounted in Houston and is currently in Canberra. The RA was amazed that sponsors, in particular camera and film companies, were not fighting each other for the London show. Now all has ended happily with the two backers offering a guarantee against loss.

It is likely that they will be let off very cheaply because The Independent has agreed to be associated with the exhibition, giving it comprehensive coverage. Involving a newspaper in an arts event is becoming a popular form of mutually advantageous sponsorship guarantee.

Next Saturday the RA's Summer Show, the traditional start to the London Season, opens to the public. The main sponsor is Korn/Ferry, the leading management head hunters, which has increased its aid to £15,000, with all the money going to artists. A distinguished panel has selected what it considers to be the five finest exhibits in the Show – works by two RAs, Carel Weight and Craigie Aitchison, an ARA Michael Sandle, and two other artists Albert Irwin and Mick Rooney. They each get £1,000. Now all the RAs, and the public, get the chance to separately select one of the five as Best in Show. So at the end of June one artist will receive another £10,000, or two will get £5,000 each, depending on whether the professionals agree with the man in the street.

There is no overall sponsor for the Summer Show as such. Last year Esso gave around £100,000 for the privilege but since the RA makes a profit from the Show (last year taking £250,000 in commission on sales) this is jam rather than essential bread.

*

Tonight a small miracle takes place in west London. Earls Court, which usually resembles a particularly austere aircraft hangar, will be transformed into a Spanish village, a suitable backcloth for the enactment of Bizet's operatic tragedy, Carmen.

The £3m-plus show is the work of Classical Productions, a joint venture between Mark McCormack's IMG and impresario Harvey Goldsmith, who last year put on Aida. Carmen is even more ambitious and 100,000 people are expected to pay up to £45 a ticket over seven performances. Such a commercial venture would hardly seem to need sponsorship but the MI Group, a financial services company, paid £500,000 last year to cover a three-year link, and seems so enthused about the venture that it has raised this to £300,000 for Carmen alone.

The price has been upped because Carmen is to be televised live on both Channel Four and Sky. MI already gets a mention on every advertisement, leaflet, and radio commercial and has placed its logo on the cushions which have just been ordered to make the seats more comfortable. It also receives some free tickets as well as the opportunity to buy more for the charity performance on behalf of Save the Children which will bring Princess Anne to Earls Court. yet for all its investment MI still remains mysterious to most people.

Seventy more companies are each paying £8,000 to hire one of the ten marquees that have been erected around the performance area in which fifty guests can be entertained. It might not have the glitz of Glyndebourne, but Glyndebourne goes to great lengths to prevent company entertaining taking over the performances.

Carmen is turning out to be the biggest arts sponsorship bandwagon ever, if such a monumental extravaganza can be counted as an artistic event. When it goes to Tokyo later this year Mitsubishi Electronics is putting up $2.5m (£1.56m), towards the cost of the transfer, plus another $2.5m, in promotional costs to ensure that it is a success.

*

If Carmen is the show biz event of the summer the artistic accolade must go to the six week season of the Bolshoi ballet company from Moscow at the Coliseum, followed by a week in Birmingham and another week in Dublin. Here too sponsors have made an important contribution. Western Motor Holdings contributing almost £400,000. According to Victoria Charlton of the Entertainment Corporation, which has negotiated the visit, without such an infusion the top seat price would have been £75: as things stand it is £55.

Western Motor Holdings is not the most famous company in the world and this is the first time it has ventured into any form of sponsorship. It has strong East European links, being the importer of Lada cars, and among its directors is Mr A Oztemel, an Armand Hammer figure who has traded for many years with the Soviet Union, taking much of its chrome.

Because the sums involved in bringing over a company with more than 200 members are so monumental BOC is assuming some of the sponsorship burden, for two weeks on payment of £100,000. Along with Western it is mainly buying good will – it receives some free tickets but it is paying for many more with which to entertain contacts. As usual with Entertainment Corporation ventures involving Soviet artists accommodation is provided by Mount Charlotte Hotels while Ryan Air is flying the company to Dublin.

On top of the overall sponsorship eight companies have bought into the occasion, holding party evenings organised by Belle Shenkman, who has cornered the market in smart arts sponsorship entertaining. For up to £40,000 the likes of Jaguar, Alcan and BET get tickets, a party, (usually at the National Portrait Gallery), and lots of style.

*

It is almost unprecedented for sponsors to back amateur productions with real money but the Royal College of Music Opera school production of Eugene Onegin has received £10,000 from the auditing firm of Ernst & Whinney. Yes,they are the RCM's auditors but this is a mighty sum to keep a client happy.

The performance will take place in the newish Britten theatre which the RCM is using as a revenue booster in these days of more self sufficiency among colleges. The sponsor gets 400 free tickets, which could fill the auditorium on one night. The fact that the opera is to be sung in Russian is actually an advantage: Ernst & Whinney is establishing itself in the Soviet Union and will doubtless be entertaining Russian guests.

Antony Thorncroft

ARTS GUIDE

June 2-8

MUSIC

London

Royal Philharmonic Orchestra conducted by Vladimir Ashkenazy, playing Brahms. Barbican Centre (Mon and Wed) (638 8891)
London Symphony Orchestra conducted by Sir George Solti, with Murray Perahia (piano). Mozart and Mahler (Tue) and Beethoven and Brahms (Thurs). Barbican Centre (Tue) (638 8891)
The Philharmonia conducted by Giuseppe Sinopoli, with Alicia de Larrocha (piano) and Lucia Popp (soprano), performing Mahler and Mozart. Royal Festival Hall (Wed).

Paris

Kathleen Battle, Martin Katz piano: Haendel, Schubert, R. Strauss,Faure, Spirituals (Mon) Théâtre de l'Athenée (474 26727)
Il Giovanne Quartetto Italiano: Mozart, Schubert, Verdi (Tue) Nouveau Théâtre Mouffetard, 73, Rue Mouffetard (43311199)
Maurizio Pollini, piano recital (Tue) Salle Pleyel (45638873)
Orchestre de Paris conducted by Daniel Barenboim, Susan Dunn, soprano, Waltraud Meier, mezzo-soprano, Luciano Pavarotti, tenor, Ferruccio Furlanetto, bass with Orchestre de Paris' choirconducted by Arthur Oldham: Verdi, Messa da Requiem (Wed, Thur) Salle Pleyel (45630796)

Brussels

Brussels Choral Society, the BRT chorus and the Brussels Festival Orchestra conducted by Tom Cunningham with Julie Kennard (Soprano) Michael George (Bass) performing Brahms' Ein Deutsches Requiem (Mon).

Frankfurt

Radu Lupu piano recital. Bach, Mozart, Schubert. Alte Oper (Mon).

Berlin

Berlin Philharmonic Orchestra and choir with Julia Varady and Dietrich Fischer-Dieskau, conducted by Uwe Gronostay. Brahms' Requiem. (Wed).

Vienna

(Over the next few weeks, Vienna will be dominated by its annual "Wiener Fest Wochen" which opened on May 11 and continues through to June 18.)
Synthesizerkonzert, Recital by Luciano Pavarotti, with Leone Magiera, piano. Musikverein. (Mon).
Wiener-Hofburg Orchester, conducted by Gert Hofbauer. Miscellaneous operetta works. Musikverein. (Tues).
Kuchl Quartett. Haydn, Ravel, Schostakowitsch. Musikverein. (Wed).
Wiener Symphoniker, conducted by Christopher Hogwood. Bach's Mass in B minor. Konzerthaus. (Thurs).

Rome

I Virtuosi Di Roma. Carlo Maria Guilini conducting Beethoven's Missa Solemnis in D Major with soprano Elizabeth Connell, Julia Hamari (contralto), tenor Siegfried Jerusalem and Simon Estes (bass). Auditorium in Via Della Conciliaziona. (Mon, Tues.) (6541044).

Milan

Teatro Alla Scala. Myung Whun Chung conducting Mussorgsky, Chaikovsky and Shostakovich. (Mon) (80.91.26)

Washington

National Symphony Orchestra conducted by Mstislav Rostropovich. Offenbach, Britten. Kennedy Center Concert Hall (Tue) (254 3776)
National Symphony Orchestra conducted by Mstislav Rostropovich with Cleopatra Ciurca (mezzo soprano), Paul Plishka (bass), and the Choral Arts Society of Washington directed by Norman Schribner. Prokofiev programme. Kennedy Center Concert Hall (Thur) (254 3776)

Tokyo

Janacek Quartet. Janacek, Dvorak, Smetena. Tokyo Bunka Kaikan, *recital hall (Mon) (449 8451)*
Aprile Milo (soprano) Gluck, Handel, Bellini, Schubert. Kan'i Hoken Hall, Gotanda (Mon) (235 1661)
Moscow Philharmonic Orchestra, conducted by Dmitry Kitaenko. Tchaikovsky, Shostakovich. Suntory Hall (Tues) (505 1010)
Finnish Radio Symphony Orchestra, conducted by Jukka-Pekka Saraste. Sibelius, Debussy, Schumann. Suntory Hall (Thurs) (235 1661)
Tallis Scholars, conducted by *Peter Philips. Josquin de Pres*, Gibbons, Gombert, Lassus. Casals Hall (Thurs) (403 5871)

Saleroom

The Pontormo effect – the anticipated fillip in demand for Old Masters following Christie's sale on Wednesday of a portrait by the 16th century Florentine artist Pontormo for a record $35.2m (£22.7m) – was immediate. The subsequent Sotheby's sale of 128 Old Master and 19th century paintings from the estate of the late Walter P. Chrysler Jr, son of the founder of the Chrysler Corporation, went swimmingly, making $18.5m. (£11.7m), with only 4 per cent unsold.

Some dealers were rather supercilious about Chrysler's buying in the post-War period, considering that his taste lacked refinement. But as record followed record the auction began to resemble an Impressionist sale. The top price was the £1.5m. paid by Guy Sainty, the New York dealer, for "Landscape with Aqueduct" painted in 1818 by Théodore Géricault. It was a record for the short-lived French artist.

Another record was the £1.19m. paid by Gert Rudolf Flick for an architectural capriccio by Bernardo Bellotto showing the 18th century artist in the costume of a Venetian nobleman. One of Ingres' many versions of Raphael and Fornarina, showing the Old Master hugging his half-naked mistress, set another artist record of £908,802.

In the general sale that followed, the London dealer Johnny van Haeften paid £1.85m. ten times the estimate, for a Dutch interior by Jan Steen showing a man and a woman playing cards.

The demand at the sale was reassuringly widespread, with dealers from many countries competing against collectors. The one thing absent was any big Japanese buying, but the Japanese, the main driving force behind the rise in Impressionist and modern pictures in recent years, are starting to collect Old Masters.

Agnew's, the Bond Street dealers, has just sold three important paintings to Japan. A sketch by the 18th century Venetian artist Giovanni Battista Tiepolo of "The Apotheosis of Admiral Vettor Pisani" to the National Museum of Western Art in Tokyo; Daumier's panel "Don Quixote and Sancho Panza" to the Bridgestone Museum of Art also in Tokyo; and a Constable painting of Trees on Hampstead Heath, to the Shizuoka Prefectural Museum in south west Tokyo. More sales are anticipated.

One difference between the Impressionist and Old Master markets is that dealers still dominate in Old Masters and many deals take place privately at very high prices.

Antony Thorncroft

FINANCIAL TIMES

NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 01-873 3000 Telex: 922186 Fax: 01-407 5700

Monday June 5 1989

China's giant step backwards

CATASTROPHE HIT China at the weekend. An intervention by the military against the student protests in Peking was long expected but its sheer brutality stunned even those experienced in the less humane aspects of China's history.

The fact that a large heavily armed force was able to massacre a crowd of peaceful and unarmed protesters does not in itself clarify what is happening at the top of China's deeply divided leadership. It does make clear, however, that the small group of survivors from the Long March currently in some sort of control under Deng Xiaoping are unreconstructed totalitarians. Their disregard for human life raises questions which now require urgent responses from the international community.

The events of the weekend make nonsense of Deng's international image as a reformer and supporter of liberal thought. His responses to the student protests of recent weeks and his manoeuvrings against the liberals within the party hierarchy underline his position as a hardline authoritarian, determined at all costs to retain political control through the party. The labelling of demonstrators as "counter-revolutionaries" echoes the illiberal and confused rhetoric which accompanied China's erratic progress through the 1950s, 1960s and 1970s.

Human rights

The West and, latterly, the East bloc wished to believe that it was dealing with a new and different type of regime in Peking under Deng's leadership. This was undoubtedly true in terms of economic reform and the open policy towards foreign capital and foreign tourists. It was never true in terms of human and political rights, and the West may now be regretting that it paid too little attention to the abuses perpetrated against individuals and entire ethnic minorities, notably in Tibet. Deng has commented that the West is more concerned with markets than with the fate of individuals. He has now thrown away 10 years of carefully orchestrated international public relations in one unnecessary, bloody night.

Now is the time to make the West's views on these matters clear and for Britain, in particular, to reconsider the future of the 5.5m people in its colony of Hong Kong, due to be transferred to Chinese sovereignty in 1997.

There are a variety of ways the international community can respond. First, displeasure needs to be expressed unequivocally through all available diplomatic channels together with reminders that investment, trade (notably arms deals) and ventures to help China's economic modernisation cannot and will not continue if the Government behaves in this way. China's fellow members of the United Nations Security Council should also make plain their horror – which will be an interesting test of the Soviet Union's willingness to line up against a Communist power with which it has recently achieved a *rapprochement*.

Good faith

The international community might also usefully express its anxiety to Britain about Hong Kong. Britain has long taken a deliberately optimistic view of China, seeking to accommodate its wishes on Hong Kong in the interests of good relations with the Peking Government. The Sino-British agreement of 1984 on the future of Hong Kong was predicated on the good faith of the Chinese Government in guaranteeing the internal integrity of Hong Kong for at least 50 years after 1997. How much is that good faith worth now?

Further negotiations on the minutiae of a Basic Law for the Hong Kong people after 1997 are not tenable with the present regime in Peking; and the British Government will now have to take the issue of the future of the Hong Kong people more seriously than hitherto. This may mean reopening the question of status and nationality or, finally, responding to demands for democracy (now reinforced by last month's demonstration of between 1m and 2m Hong Kong people in support of the Chinese democratic movement). Above all, it means no longer kowtowing to a regime which cannot be trusted.

No tears for the Imam

EXTENSIVELY anticipated and several times prematurely announced, the death of Ayatollah Khomeini, leader and guide of Iran's Islamic revolution, has at last occurred.

The Islamic Republic itself is plunged in mourning, much of it no doubt sincere and sincerely shared by Moslems in other countries. For many Moslems Khomeini's achievement in overthrowing the Westernised regime of the late Shah, and in establishing a 1,400-year-old religion as one the main competing political ideologies of the late 20th century, far outweighs the various shortcomings, not to say barbarities, of his ten years in power. We in the West have had to grapple with this phenomenon, and have come to accord it a grudging respect, accepting that non-Western peoples wish to express their "identity" by seeking inspiration in their own tradition rather than in Western values.

Perhaps only Lenin and Hitler in this century have mounted a comparable challenge to the world hegemony of post-Enlightenment Western liberalism. Khomeini's challenge is less formidable than theirs in that Iran is not, and seems unlikely to become, a military power comparable to Germany or the Soviet Union. But it is in one sense more radical, because it purports to come from right outside the Western tradition. *In fact, as* Dr Sami Zubaida points out in a recent book*, the modern nation-state, an essentially Western concept, is an important unstated premise of Khomeini's political theory. But the attraction of that theory to many Moslems is that by adopting it they believe they can free themselves from the tyranny of Western modes of thought.

Physical force

For anyone who remains attached to Western liberal values Khomeini's theory and practice alike are peculiarly unattractive. He imposed a narrow definition of virtue by the use of physical force which often took very primitive forms but by no means scorned the *aid of modern technology; and* he claimed supreme authority for the *faqih*, or expert in divine law, who turned out to be himself.

But after him, who? Yesterday's choice of President Ali Khamenei does not really answer the question. Neither he nor any of the alternative candidates could aspire to the unquestioned authority that Khomeini enjoyed as leader of the revolution; or even, probably, to the unofficial but deeply resonant title of "Imam" by which he was known.

Power struggle

Like other absolute rulers, Khomeini was shrewd enough to delegate power in small doses, maintaining a balance among his advisers. His departure thus sets the scene for a classic power struggle, in which the battle lines may well not follow the neat division between radicals and moderates for which Western policy-makers yearn.

For what it is worth, President Khamenei has recently been cast as one of the pragmatists; and the fact that he has now been endowed with supreme religious authority despite being a mere "hojatoleslam", as opposed to an ayatollah, is itself a pragmatic move. More important, perhaps, is the speed with which the decision was taken, showing that the regime at least has sufficient cohesion to act promptly in a crisis. Past experience suggests that policy choices are dictated less by the identity of the winning faction than by the stage the battle has reached: it was after the victory of the radicals in 1980 that the US hostages were released.

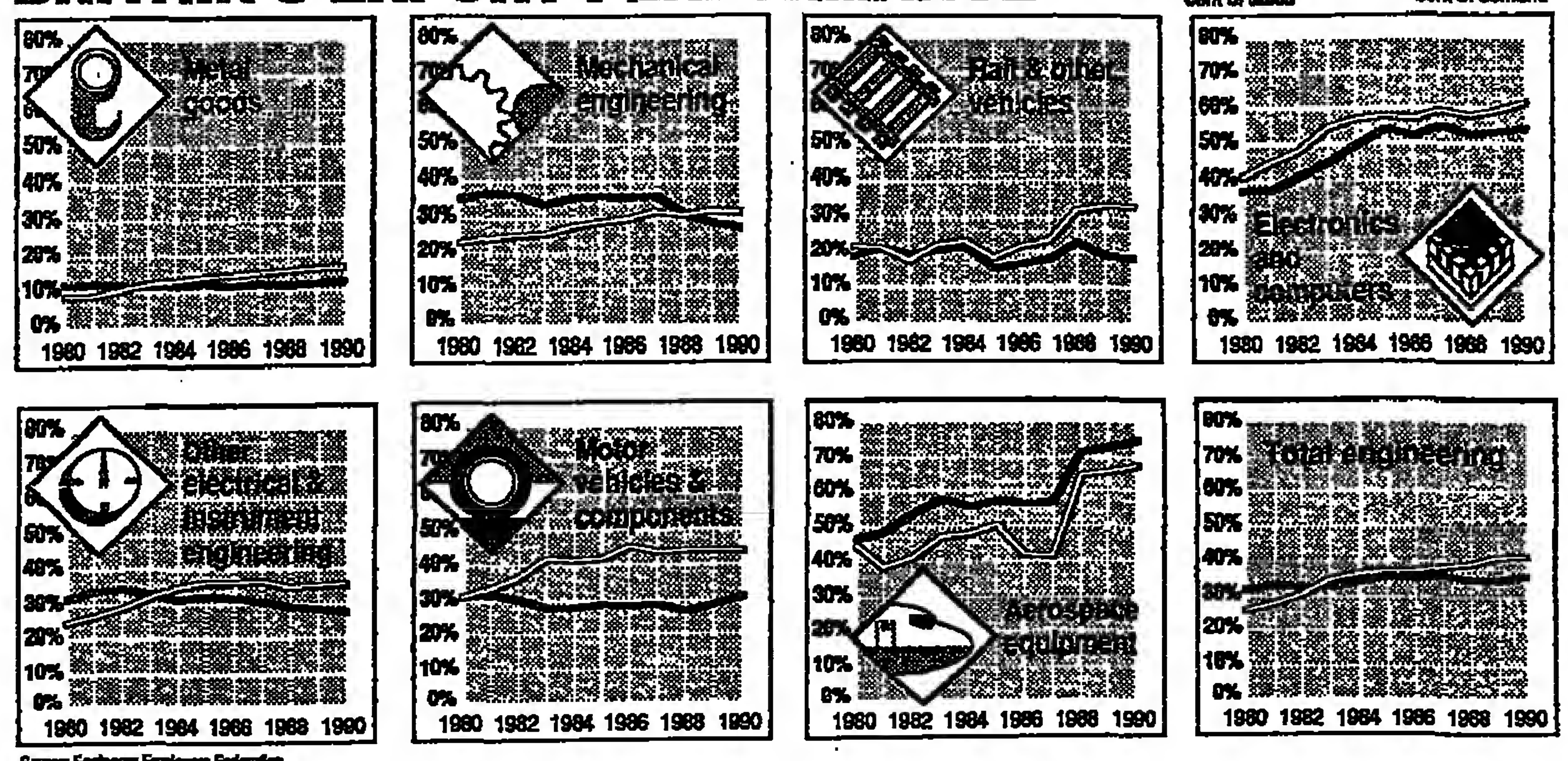
The conclusion reached by the "pragmatists" last year, that in the end Iran cannot afford to be isolated in the international community, is one likely to impose itself sooner or later on any faction whose interests become identified with successful management of the state, rather than with finding failures to blame on its opponents. That being so, Western interests will be best served by a concerted diplomacy holding out the prospect of tangible benefits if Iran's isolation is broken, but ensuring that isolation continues and grows more complete *so long as* Iran persists in flouting the established norms of international behaviour.

**Islam, the People and the State (Routledge, £27.95).*

Terry Dodsworth and Nick Garnett analyse the poor showing of much of British industry in world markets

Laggards in the exports race

BRITAIN'S EXPORT PERFORMANCE



Source: Engineering Employers Federation

In the neat Yorkshire town of Lightcliffe, Crosslee, a tumble dryer maker, is enjoying another booming year of production and exports. Around 350,000 machines will roll off its manufacturing lines in 1989, a fifth up on last year. More than half will go abroad, installed in kitchens from Oslo to Madrid. Like many companies in the UK, Crosslee's factory is busy and its distributors are selling more outside the UK than ever before.

Buried in Crosslee's operating figures, however, is a curious detail. It costs the company 27p less per dryer to transport a full truck load of products to Frankfurt than it does to Southampton. "The reason is simple," says Mr Derek Clee, joint managing director: "There are so many foreign trucks coming into West Yorkshire bringing in imports that their operators are desperate to find any loads to take back to the Continent."

Crosslee's trucking costs highlight one of the most pressing issues facing the British economy. While factories are generally bulging with work, the trade deficit which emerged in manufactured products in 1982 has opened into a yawning chasm. Trade in goods other than oil has tumbled from a surplus of £245m in 1981 to a deficit of £22.9bn last year. Even after including the positive contribution of oil, the deficit, excluding services, had reached £20.5bn. In manufactured equipment alone, excluding processed goods such as food, it amounted to £14.5bn – and in the current year, this part of the deficit looks to be heading for £18bn.

Britain's soaring appetite for foreign products was due in part to what many economists regard as benign trends in manufacturing industry. Imports of foreign machine tools and other production equipment, for example, went up by 21.5 per cent last year as UK companies revamped production lines. At the same time, rising imports in some narrow product areas were matched by increasing exports in others, a shift of emphasis that was part of a general worldwide move towards greater specialisation. This happened, for example, in capital goods, where import growth was balanced by an 18 per cent jump in exports.

The big problem occurred in the much more visible area of consumer demand, where foreign products, from West German luxury cars to Japanese compact disc players and French fitted kitchens, flooded into Britain on a tide of credit. In these industries, UK companies were left high and dry.

According to a report by Mr Walter Eltis, director general of the National Economic Development Office, imports of consumer-oriented products rose by almost 18 per cent in 1988, while exports were stagnant. Three large-volume consumer industries, motor cars, textiles and home electronics, accounted by themselves for £8.6bn – well over half – of the trade deficit in manufactured goods.

The surfeit in demand in all these areas is now under attack as punitive interest rates take some of the sting out of the high street boom and the runaway housing market. But as imports fall, attention will shift to British industry's ability to switch production into export markets. Which sectors are equipped to help close the trade gap?

Some industrialists believe British manufacturers are better placed to make such a competitive effort than for many years. Structural reorganisation in UK companies and the industrial environment – the so-called supply-side revolution – has, they claim, led to lower costs, and better design, delivery times and quality.

Sir David Plastow, chairman of the Vickers engineering group, argues that the capacity cuts in the early 1980s have created a new breed of UK manager. "British industry went through a traumatic time in that period, but contemporary management in the UK is as good as most in the world."

Long-term recovery may depend on the policies of the UK's foreign companies

However, plenty of industrialists, many of them exporters themselves, take a much less optimistic stance. They tend to argue that while individual UK companies might be doing well, the overall performance will not be good enough to redress the balance.

"In the last 10 years there has been a big improvement in efficiency in Britain," says Mr Len Weaver, chairman of the Jones and Shipman machine tool company, which exports more than half its production. "Productivity has grown, and people are no longer shaking their heads and wondering if we can continue as an industrial country. But I don't see the deficit disappearing easily. There is a world of difference between companies which are serving this country and those which are out there competing overseas."

Doubts about Britain's ability to compete more effectively cover a range of issues:

● There are some large-scale industries where UK manufacturers do not have the scope to turn the tide over the short to medium term. The outstanding example is cars, where UK production capacity is about 1m units short of domestic demand alone.

While there are hopes that production from the new Nissan and Toyota plants will begin to eradicate the gap by *the mid-1990s, most of the* large-scale producers in Britain are foreign companies without a big commitment to exports because they have plants elsewhere in the region. Rover, the remaining UK-owned producer, is reducing capacity. While foreign-owned manufacturers now have well-established distribution networks in the UK, the survival of some plants, such as Peugeot's in the Midlands, might be questionable if there were a widescale market turndown.

● Currency, while not the menacing ogre it was in the period of strong sterling in the early 1980s, is still an anxiety, particularly for companies dealing mainly in dollars. Nedo figures show that UK companies have gained competitively from exchange rate movements against the D-Mark since 1983, but, until the recent slide in sterling, their prices had become about 15 per cent less competitive against dollar-based competitors.

This issue is critical in textiles, and in aerospace, which is one of the outstanding UK trading successes in the 1980s, with a trading surplus last year of £1.7bn. UK aerospace groups have become so dependent on American sales that they are increasingly trying to balance their dollar revenues by dollar costs. This means purchasing parts in dollars, many of them from overseas, so that the UK no longer receives the full benefit from the flow of foreign orders.

● The industrial base in Britain may have narrowed to a dangerous degreee. Mr Eltis homed in on this point in his Nedo paper, remarking that if there are "fundamental gaps in *the product range . . . imports* may shoot up at rates that exports cannot match whenever the UK enjoys rapid growth."

Some industrialists believe these inadequacies in Britain's manufacturing portfolio will now weaken the attempt to switch production into export markets. According to the Engineering Employers Federation, for example, the only sector in trade surplus among the metal-related industries, encompassing scores of sectors from electronics to heavy engineering, is aerospace and defence equipment. Even mechanical engineering is heading for a deficit this year for the first time in living memory. In the newer, high-technology industries, the UK appears to have settled into a position of long-term structural imbalance in areas such as computers and microchips.

● The UK has become a wide-open market for foreign component and other equipment suppliers. Crosslee, for example, has abandoned its buy-British policy because of currency uncertainties, purchasing motors in the US, plastics in Spain, stainless steel in France and Belgium, and switches from West Germany. Many British component producers have established plants overseas to be closer to their customers. GKN, the diversified engineering and services group, for instance, exports less than half as much to the US today as in 1970, despite a 67 per cent increase in its American sales.

● The trend towards increasing foreign investment may have short-term trading penalties that will only be offset by benefits in export markets over a longer period. This point is extensively argued in the book *Microcircuits of Capital* (1988, Polity Press) in which Mr Kevin Morgan and Mr Andrew Sayer, two Sussex University dons, point out that the deficit in the UK's trade in electrical and electronic goods has continued to rise despite heavy investment by foreign producers. In the early stages of such investment many companies have to import components and tooling equipment.

UK companies were left high and dry as foreign products flooded in on credit

● Britain's endemic problems in high-volume, design-led consumer industries suggest that many UK companies have still not learned how to respond *effectively* to high street demand. In the building materials sector, for example, where the UK ran up a deficit of £2.5bn last year, it is likely that cement imports will rapidly wither away as demand cools; but UK producers are not expected to make a big exporting impact in metal fittings, where British consumers have emphatically shown their preference for foreign designs.

Two pessimistic reports on quality and productivity in UK manufacture of kitchen furniture and women's clothing compared with that in West Germany were issued recently by the National Institute of Economic and Social Research.

The conclusion that emerges from this list of exporting problem areas is not totally damning to the UK economy. One thing the examples underscore is the continuing strong trend towards international manufacturing specialisation, which will inevitably mean more cross-border trade. Britain's weakness, as the critics see it, is that it is not managing this evolution as skilfully as international competitors such as West Germany, which has a higher level of import penetration in manufactured goods than Britain, but a correspondingly stronger rate of exports.

Britain is advancing on these lines in some areas. The defence sector, for example, is one of considerable and growing strength, with Britain now probably the world's third largest exporter of military equipment after the US and the Soviet Union. The industry believes prospects are good, that procurement specifica*tions by the Government in* terms of exportable products are improving, and that the French are slipping as competitors.

There is similar exporting potential in chemicals. The UK pharmaceuticals sector has made large strides internationally in the last decade, while in specialised organic chemicals – intermediate products which go into other materials – a handful of medium-sized British companies have turned a deficit into a substantial surplus during the 1980s.

Nevertheless, Britain appears to have a disproportionately small number of healthy exporting sectors carrying a larger amount of weak and flagging industries. For this reason, many industrialists argue that hopes of an enduring recovery in manufacturing exports may now depend critically upon the policies of foreign companies moving into Britain.

These producers, they say, bring technology, a long-term commitment to manufacturing that is often lacking in British industry, and a willingness to invest in greenfield projects that has rarely been seen among UK-owned companies for a decade.

Mr Gilbert Johnson, chief executive of JCB, the construction equipment maker which is one of Britain's outstanding competitors in world markets, speaks for a lot of industry when he dismisses government talk of a quick turnround in the trading imbalance. "I think a lot of ministers talk absolute rubbish," he says. "A lot of things might help, but I think that for volume products you can only look to projects like the Toyota car investment in Derbyshire."

OBSERVER

Not so quiet Georgetown

■ Americans are getting a pleasurable thrill out of the report that Fawn Hall, Oliver North's sensationally attractive secretary and paper-shredder, has confessed to Federal drug agents that she was a weekend cocaine user while she was engaged on very secret government work. For some residents of Georgetown, however, the news, revealed in the Washington Post yesterday, is likely to arouse more fear than pleasure.

Hall, the Post says, made her confession to agents of the Drug Enforcement Agency nearly two years ago, as part of a still unfinished investigation into drug dealing in the expensive clubs and bars frequented by influential Georgetowners. The pretty inner suburb is not quite as fashionable as it was in the Kennedy era, but it still houses far more than its share of high officials and party-givers, especially in the scandal-ridden Democratic Party.

The Democrats are already incensed about leaks from prosecutors in the Department of Justice. The leaks have been used to blacken the names of a number of senior politicians who have been involved, either directly or through their staffs, in investigations.

Now the drug enforcers appear to be leaking as well. Hall was surely not the only well-known user they questioned in their efforts to get at the dealers. What other names are going to emerge in the long, hot scandal season which Washington is already dreading?

End to clichés

■ A Notice to Advisers in Contested Bids has gone up in the waiting room at the offices of the Take Over Panel. It begins: "To save time please accept that we understand your position is as follows."

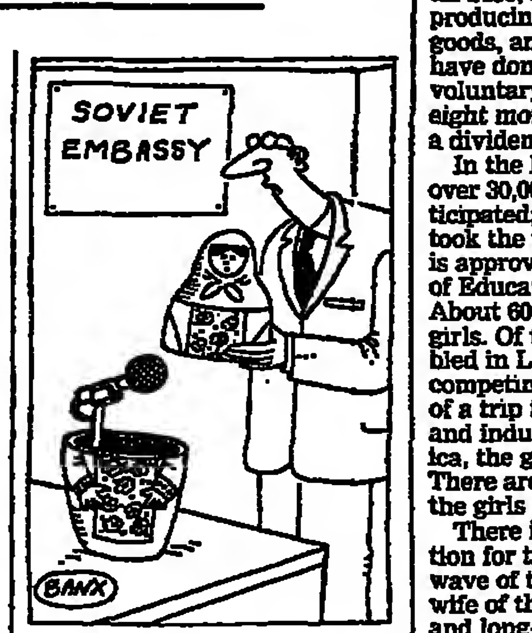
It then lists seven points, *including: "Self-regulation as* we know it" will end if the Executive rules against you. Everything done or said by "the other side" is tactics whereas everything done or said by your side is in the interests of shareholders generally. You are astounded that a bank of the standing of "the other side's" advisers should permit itself to be acting in such a case. Either your PR man has played a very minor role and could not possibly be responsible for what has occurred or you are afraid that your PR man is new and "has been on a frolic of his own". You and your client have the greatest respect for the Panel and support the system; however, your position is becoming impossible because "one side is playing by the rules and the other is not". Everyone who is not of your view is acting in concert with "the other side".

"On that basis," the Notice concludes, "shall we proceed with the meeting?"

Cleaning up

■ "The Reagan Administration began to lose the battle against pollution in 1982-83. It just gave up on it," says William I. Mills. Mills should know: he was a member of the President's Council on Environmental Quality from 1983, could have stayed on under President Bush, but has since switched to the private sector.

Mills is in Europe this week, along with a team from a company called Polar Molecular Corporation of Saginaw, Michigan, to which he has become *a full-time environmental* consultant. PMC claims to have invented a fuel additive that not only reduces engine wear, but also improves mileage and



performance. Known as DurAlt FC, it works in gasoline and Diesel engines.

PMC is a smallish company, however, and wants to retain its independence. In this particular field, it believes it is ahead of the oil and chemical majors. So the firm is making a presentation in the City today, before going on to other parts of Europe.

It also hopes to make its mark on the track. PMC has recruited Lyn St James, America's top woman racing driver, to compete at Le Mans next weekend in her racing-prepared Ford Mustang, topped up with DurAlt.

Girls on top

■ To declare an interest: for the past two years I have been an assessor in the national Young Enterprise awards. The standards in this admirable *scheme seem to get higher and* higher, yet one is still surprised that so little appears to be known about it in London.

For the uninitiated, the scheme consists of sixth formers setting up their own company – maximum share capital £150, at 25p a share – producing and marketing their goods, and seeing how they have done when they go into voluntary liquidation about *eight months later. Some pay* a dividend.

In the last academic year over 30,000 young people participated; some 18,000 of them took the practical exam which is approved by the Department of Education and Science. About 60 per cent of them are girls. Of the 24 finalists assembled in London last Friday, competing for the top prize of a trip to look at business and industry in North America, the girls accounted for 20. There are six such awards: the girls won them all.

There is no obvious explanation for this. It may be the wave of the future. Lady Howe, wife of the Foreign Secretary and long-time campaigner for equality of opportunity, gave the prizes and was obviously delighted at the results.

By no means all the participants want to go on to found their own businesses. Some of them are going into the professions. What they all get out of it, however, is a feeling for how business works. That is a great cultural change.

Young Enterprise is still run on a shoestring. It could do with a bit more financial support as well as a few more advisers from industry who would give a couple of hours a week helping the young companies get off the ground. The latter applies especially to London. At present, it is the regions which are making the running. Blue Arrow and the Midland Bank are among the companies most actively helping.

Blind spot

■ *Sign in a New York optician's window:* "IF YOU CAN'T SEE WHAT YOU WANT, YOU'VE COME TO THE RIGHT PLACE."

OBITUARY

Ayatollah Khomeini: Islamic revolutionary

Sayyid Ruhollah Mousavi Khomeini, the Iranian leader who died on Saturday, was until 1978 a little-known clergyman living in exile in Iraq. In October of that year, at the age of 76, he resettled just outside Paris and began to bring Iran's Islamic revolution to a climax.

From his base in Neauphle-le-Château, he gained worldwide public attention, laid the groundwork for a revolutionary government, and through dissemination of his speeches within Iran swiftly consolidated his position as leader of the opposition to the tottering regime of Shah Reza Pahlavi.

His return to Iran in February 1979 – two weeks after the Shah's humiliating departure – was triumphant. Since then he has been the towering figure of the revolution, revered by his followers and reviled abroad in equal measure. While he has often seemed removed from day-to-day affairs, his personal charisma and power – symbolised by the dark turban, frowning eyebrows and full beard – have remained unmistakeable.

Yet Khomeini's legacy is patchy and incomplete. He succeeded in shaking up Iran's foreign alliances, held his country together through nearly eight years of conflict with Iraq, and when the country's war effort approached collapse was reluctantly persuaded to steer it towards peace. To some extent, he galvanised Islamic communities throughout the Middle East. But his efforts to create a political model worthy of emulation abroad or to spread the revolution to other countries were conspicuous by their failure. At home, he experienced constant difficulty in translating the revolution into a viable and consistent government programme.

By the time of his death, Iran's economy was in desperate straits, its armed forces severely weakened, its people exhausted and its political future more uncertain than at any time since the fall of the Shah.

Khomeini was born on September 24 1902 into a strongly religious family in the small town of Khomein, about 180 miles south-west of Tehran. At the age of 15 or 16, he was sent to study religion at the provincial centre of Arak and he moved to the holy city of Qom in the early 1920s.

By the 1930s, Khomeini was emerging as a leading scholar. But it was not until the early 1960s that he began to play a politically active role. Khomeini mustered his followers in open protests against the Shah's so-called White Revolution, which he said aimed to destroy Islam. In June 1963, he was arrested, a move which led to rioting and bloody clashes between the Shah's forces and the opposition.

Khomeini was released 10 months later. He pursued his political activities, calling for a boycott of the elections the Shah had called for October 1964. The confrontation came to a head in the second half of that year, when Khomeini led protests against a law giving American military personnel in Iran full diplomatic immunity. He was arrested again and deported to Turkey, whence he moved to the Shia holy city of Najaf in Iraq in October 1965.

So began 14 years of exile. In Najaf, Khomeini devoted himself to teaching, writing and issuing public declarations. His activities consolidated his role as leader of Iran's religious community, and won him further respect as the Shah's most outspoken critic.

The period of exile served to crystallise Khomeini's ideas on government at a time when severe economic and social dislocation was creating a radicalised political climate within Iran. In a series of lectures in Najaf in early 1970, the Ayatollah broadened his attacks beyond the person of the Shah to the institution of monarchy itself, and called for the overthrow of the Iranian regime and its replacement with an Islamic state ruled either collectively by the religious leadership or by a single outstanding expert on divine law.

At Khomeini's death, Iran's economy was in desperate straits, its armed forces weakened, its people exhausted

When serious protests against the Shah erupted in January 1978, Khomeini acted swiftly to maintain its momentum and channel protests towards the goal of establishing an Islamic Government. His move to Paris the following October, after Iraq asked him to leave, marked the decisive stage in the revolutionary movement and in Khomeini's emergence at its head, operating through a well-organised opposition movement within Iran centred on the mosques.

The Shah came under relentlessly mounting pressure, and left the country on January 16 1979. On February 1, Khomeini returned – on a specially-chartered jumbo jet packed with pressmen – to a tumultuous welcome. Eleven days later, after bitter street fighting in Tehran, the vestiges of monarchy finally collapsed, leaving Khomeini's appointee, a 72-year-old moderate nationalist named Mehdi Bazargan, at the head of the first Islamic Government.

Bazargan's eight-month premiership was marked by increasing differences between the diverse groups which had combined to make the revolution a success, the moderates and radicals and secular and clerical forces. Khomeini, in a pattern which was to become characteristic of his leadership, did not decisively take sides in the power struggle, preferring to keep his sails trimmed to the prevailing political winds.

The struggle for the soul of the revolution came to a head in November, when a group of young militants calling themselves "students following the Imam's line" occupied the US embassy in Tehran and held its staff hostage. They demanded that the Shah, who had been allowed to enter the US for medical treatment, be extradited to Iran. Khomeini refused to condemn the students' action and endorsed the demand for the Shah's extradition. On November 6, the Bazargan Government resigned.

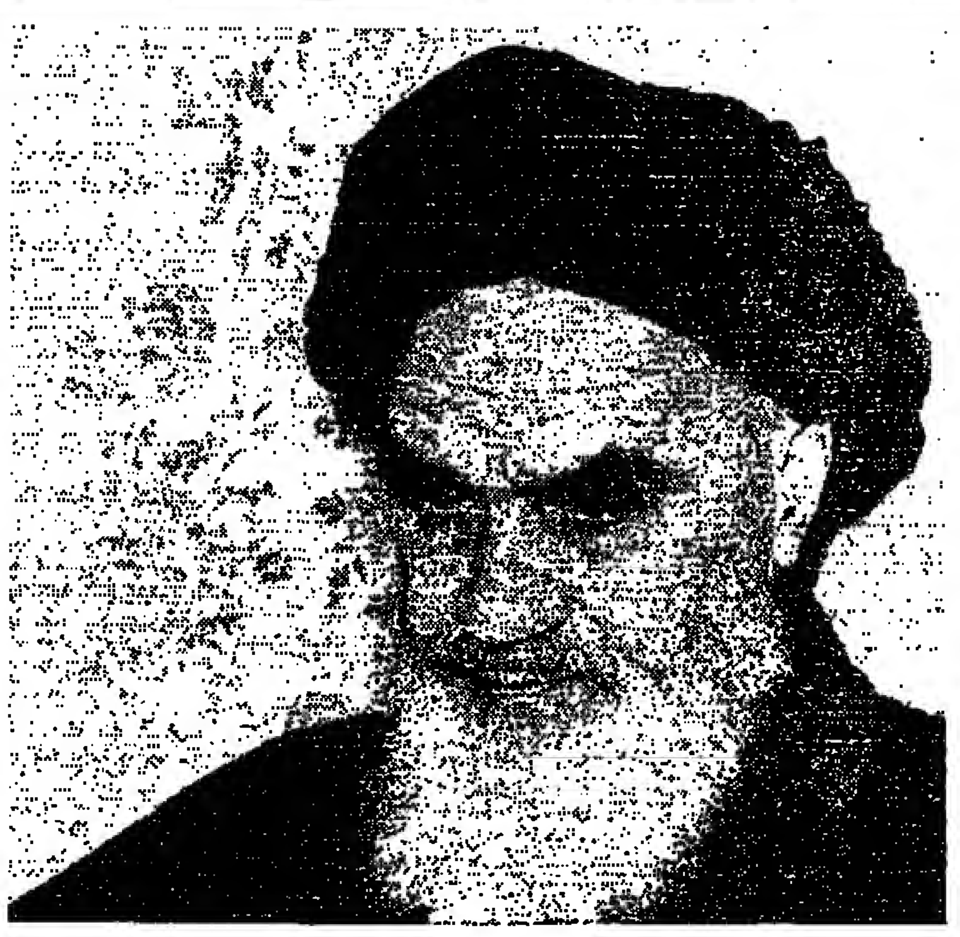
The revolution now entered a new phase as Iran succumbed to a wave of anti-American feeling. The power of the clergy was consolidated when the constitution of the Islamic Republic, bestowing sweeping powers on Khomeini, was adopted in a referendum in early December 1979.

The first President of the Islamic Republic, Abolhassan Bani-Sadr, also found his power undermined by a conspicuous lack of support from Khomeini and by the growth of an alternative power centre, the newly formed Islamic Republic Party.

That September saw the beginning of the most testing time for the revolution when Iraqi forces pushed across Iran's southern border with the aim of toppling the regime. The expected collapse did not happen, and Iranian forces were able swiftly to bring the Iraqi advance to a halt.

But at the same time, internal dissension in Iran was reaching a scale close to civil war. It came to a head in the summer of 1981. Bani-Sadr was dismissed, and the leftist People's Mujahedin Organisation planted bombs which killed more than 70 senior government and party officials.

There followed a wide-ranging campaign of repression against opposition forces. While the regime ruthlessly consolidated its position at home, it was also turning the tables on the battlefield against Iraq. In 1982, after a series of offensives costing horrific numbers of casualties, Iranian forces finally ejected Iraqi troops from their territory. And in July, Khomeini made the fateful decision to press on with an attempt to topple his opponent President Saddam Hussein.



That choice cast the die for the next six years of the revolution, which were mainly characterised by stalemate on the war front and political deadlock at home. After the tumult of the early years, the Government entered a period of greater stability. Khomeini continued to set the broad lines of policy, but day-to-day control was exercised by a triumvirate consisting of the Prime Minister, Mir Hussein Mousavi, the President, Ali Khamenei and the increasingly powerful parliament speaker, Ali Akbar Hashemi Rafsanjani.

The relative tranquillity on the surface, however, could not disguise deep-seated disagreements within the leadership about the policies of the Islamic Republic. As always, Khomeini himself floated above the fray, intervening occasionally on one side or the other but never coming down decisively on either. The one constant appeared to be his refusal to compromise over the war.

In 1988, however, Tehran was forced to face up to the failure of its war effort and to the perils of a mounting confrontation with the US. On July 18 came the greatest reversal of Khomeini's career: the decision to accept a 12-month-old call from the United Nations Security Council for a ceasefire. It was a decision which Khomeini, by now reported to be seriously ill with liver cancer, was persuaded most reluctantly to accept: in an emotional speech that week, he acknowledged that it marked a disavowal of much that he had fought for and likened the move to "taking poison."

With the end of the war, his most cherished dream shattered, Khomeini appeared to acquiesce in Rafsanjani's acquisition of control, and his redirection of Iran's foreign policy into more moderate channels. But any hopes in the West that the revolution had mellowed by the time of its 10th anniversary in February 1989 were rudely shattered by Khomeini's decree in the same month that Mr Salman Rushdie, the British writer, should be executed for blasphemy in his novel The Satanic Verses. The proclamation provoked outrage abroad and further political turmoil at home.

Not long afterwards, Khomeini sacrificed Ayatollah Hossein Ali Montazeri, his designated heir and one of his oldest and most loyal pupils. Montazeri was obliged to withdraw from the succession because of his outspoken speeches criticising the excesses of the Government, particularly the wave of executions which followed the Gulf war ceasefire.

Montazeri's resignation took place just eight weeks before an announcement that Khomeini had undergone surgery to stop internal bleeding. Khomeini, who also suffered from heart problems, died this weekend.

In retrospect, Khomeini's main problem in presiding over the Iranian revolution may have been his age: to set out to create an entirely new system of government at the age of 76 would be a tall order in any circumstances.

His success lay in his charisma and a shrewd political brain, which helped him to hold the core of the revolution together through 10 extremely difficult years; his failure in the absolute, unbending nature of his personality. What had been his greatest strength during the years of opposition became his greatest weakness in government.

LOMBARD

Monetarism never found

By Samuel Brittan

TIM CONGDON deserves credit for spotting the present UK inflationary boom long before most others, at least partly for the right reasons. The difficulty of presenting him with his Oscar is that he insists on using the award ceremony to promulgate his general system, which is more dubious. In his Monetarism Lost (Centre for Policy Studies, £6.50) Congdon is, in turn, both acute and infuriating. For instance he sneeringly remarks on page 51 that his arguments of the last few paragraphs have even been "quite difficult" (they haven't) and that that accounts for my preference for the simplicities of an EMS target. (It doesn't).

Nevertheless his two main strictures on the Treasury are justified. First there has been the regression away from rules and back towards forecasts in which money and credit are given a very subordinate role. Although Nigel Lawson has sometimes upset the Treasury – and even more the Commons Treasury Committee – by scoffing at the official forecasts, his real mistake has been not putting them out to grass – or competitive tender.

Second, there has been the adoption of M0 as the only monetary target to supplement the forecasts. M0 consists of notes and coins in circulation and of the very tiny amount of bankers' balances at the Bank of England. Even poor private individuals normally adjust cash to spending – for it is easy to deposit and withdraw cash from banking institutions. It is this very facility which explains the closeness of the relationship between M0 and nominal national income. Its econometric demonstration was "no surprise and uninteresting."

Even as a signal of existing inflation M0 is deficient as it fails to pick up rises in the price of assets such as shares, land or houses, which are never exchanged for coin, but which clearly affect spending. Nor does it reflect inflationary pressures diverted into imports.

Congdon correctly observes that broad money is basically driven by credit – bank credit for M3, and building society loans as well for the newer and broader aggregate M4. He is not clear on whether it is the growth of credit itself which drives inflation, or whether it is the consequences of that credit for the money supply that matters. (Those of us who do not pretend to certainty may say that both play a role.)

Congdon predicts or hopes that his paper will be dismissed as "extreme monetarist." No such luck. The control of the broad money supply by means of the credit counterparts (that is bank lending and the Budget deficit) in the early Thatcher years – which he wishes to restore – was dismissed by many hardline monetarists as confusing money with credit. For that very reason, Milton Friedman washed his hands of it.

The empirical argument against going back to automatic reliance on broad monetary aggregates is that M3 gave hopelessly misleading signals in 1979-82, when it led to record increases in base rates on the eve of the sharpest-ever post-war recession, and indeed gave monetarism a bad name; Congdon is not convincing that such errors can readily be avoided in the future.

The correct conclusion is surely that quoted from Charles Goodhart: that the Government was equally wrong to regard broad money as an exact determinant of national income in its early years and in its abrupt change to its later view that it had no effect at all.

Careful readers will notice that Congdon does not share the view of critics inside 10 Downing Street that the root of current UK inflation was the shadowing of the D-Mark in 1987. On the contrary, the gravest mistakes were made in 1985-86 when sterling was allowed to drop from over DM 4 to below DM 3. If sterling had been stabilised at a higher level, this would itself have exercised a counter-inflationary influence directly. In addition the need to maintain the higher sterling rate would have made domestic policy more cautious and inhibited the growth of credit and broad money without the need for a dogmatic view on which domestic aggregate to target and by how much.

LETTERS

PEG for the CAP

From Sir Michael Franklin.

Sir, Professor David Harvey's scheme for paying farmers income aids based on past output, the Producer Entitlement Guarantee ("A PEG for the CAP," May 25), is ingenious. It has the great merit of separating the support a farmer gets from the Government from the amount he produces. But it is a scheme unlikely to commend itself to the European Community.

Replacing all the supports of the common agricultural policy (CAP) with direct payments to farmers would mean an enormous transfer of costs from consumer to taxpayer. Consumer might be pleased, but consumers – at any rate, elsewhere in Europe – are not particularly bothered about the (relatively small) farm support addition to their food bill, whereas governments want to avoid the budgetary cost of the CAP going up.

While PEG avoids the rigidities of a quota scheme, it does not avoid the administrative complications, and hence the scope for fraud: deciding who is entitled to what payment. And differentiating according to farm size would discriminate badly against the UK, with its larger farms.

Are direct payments unrelated to farmers' output really necessary? Indeed, are they sustainable, when society is calling on farmers to do things – notably to preserve the environment and improve access to the countryside – for which society might reasonably be expected to pay?

Both the Countryside Commission and the Country Landowners have recently put forward ideas (FT, May 17) for extending much more widely the concept of paying for environmentally friendly farming. Substituting schemes of this kind for direct price support would have to be negotiated in Brussels (not easy).

But in principle it must be better to tie farmers' support payments to what the public wants rather than ask the public to accept straight income aids for which they might see little justification. I believe farmers would be happier with such an approach, too.

Michael Franklin,
15 Galley Lane,
Barnet, Hertfordshire

Impact of commission on endowment mortages

From Mr Hugh Scurfield

Sir, Your leader ("Capture of a regulator", May 31) overstates the average amount which commission removes from every £1,000 of premiums on an endowment mortgage – by more than three times. This is a serious distortion.

A policyholder with a 25-year endowment mortgage maturing now would receive a yield, ignoring tax relief, of 12 per cent on its premiums. This is with no further tax due, and after commission, expenses and death cover have all been paid for. Given the degree of security, this represents a very satisfactory return. Had there been no commissions the yield would have been increased by less than one half of 1 per cent.

Life insurance companies have been operating within a maximum commission agreement. This held commission rates down. The Government was warned that without "this cosy agreement," as you call it, commission levels would go up – thereby costing the consumer more.

The Department of Trade and Industry ruled that "this cosy agreement" must cease, so no one should now be surprised that commission levels are going up. But, given the limited impact that commission has on the overall results, mortgage endowments still represent very good value.

Hugh Scurfield,
Norwich Union

From Mr M.D. Ross

Sir, I feel that your editorial of May 31 gets it wrong by concentrating on only one aspect rather than the whole. There is, in reality, more to selling life insurance and financial advice than just the actual time involved in the selling process.

Equally, the mortgage market does not represent the entire market spectrum covered. The responsibilities and financial burdens connected with the Financial Services Act have increased costs. Is it the cash amount or its relationship to the value of the transaction as a whole which is more important? Should an element of the expenses of one distribution channel be highlighted in relation to another in a manner which could mislead? You appear to believe that it is better to put one part of the picture out of the context of the whole. I do not support that view.

The average endowment assurance premium is more likely to be of the order of between £500 and £600 a year. So your commission is overstated – hence unfair, on the overall impression given.

Interestingly, at current prices, a reader going it alone (by reading the Financial Times for advice, say) would pay out £702 over a five-year period. For an average annual investment of £500 this represents something approaching 30 per cent of the amount available for investment. One might expect a more balanced assessment for that.

Insurance products, besides providing protection against early death, are a means of medium to long-term investment. Surely, therefore, it is appropriate to consider all the expenses or charges involved in providing that service as a charge on the funds under management: a deduction from the investment return earned. This would be little different from unit trusts – and bank and building society accounts, which do have expenses and charge for their services.

What is different is the distribution of costs. The front-end aspect is already dealt with by the disclosure of early cash-in values given to potential customers.

The only real alternative to saving is not to save. Many people do need to be sold the benefits of medium- to long-term saving via an efficient mechanism such as life insurance and pensions products rather than, for example, a building society return. The selling process does involve expense. So does buying the Financial Times. But the process, like that for other products, is not always successful. Ultimately all costs have to be met out of actual sales – a point often overlooked.

M.D. Ross,
Scottish Widows' Fund

Myth grows from myth

From Mr Anthony Rosen.

Sir, Mr George McRobie is correct to say that "organic food is different" (Letters, May 27).

But just because a food is "organic" or "natural" it is not necessarily better – or safer. (For example: comfrey, used in many herbal preparations, contains many toxic pyrrolizidine alkaloids, known to have caused cancers of liver and bladder in animals, and illness and death in man.)

The organic/non-organic debate is out of proportion. Those who believe in the mystical properties of organic food probably account for less than 3 per cent of the population. Similarly, much less than 1 per cent of Britain's farmland is devoted to organic farming, whatever definition of organic we use.

It would be more sensible if organic farmers went on producing their wonderfoods and kept quiet. If enough publicity is given to the supposed benefits of organic farming, large scale inorganic producers may be beguiled into believing it, and take up organic growing. One pound too much of organic food for the very limited market to bear, and the price premium will disappear. All the small organic growers will go bust.

At present they can choose between a difficult (but perhaps economic), small (relatively unknown) market, or a non-viable, non-economic large one. To believe that more than a handful of people are prepared to pay for the myths of magic is itself a myth.

Anthony Rosen,
Feenix Farming,
Foxhill,
Elstead, Surrey

Exit here

From Mr James Lewis.

Sir, Mr Mandleberg (Letters, June 1) writes that many voted in the original referendum "for membership of the EC precisely on the grounds Mr Heath now decries: a free trade area, pure and simple."

I stood as an Independent in the February 1974 general election on the issue of sovereignty, and I spoke for the Get Britain Out Movement in the 1975 referendum campaign. Can Mr Mandleberg not grasp the simple tenet that free trade areas are created comparatively simply by mechanisms such as Efta, the Gatt, the Kennedy Round, and so on? Eight million voted to extricate the UK in 1975: not a majority, but far more than have been represented in Parliament.

James Lewis
110 Nelson House,
Dolphin Square, SW1

FINANCIAL TIMES
Monday June 5 1989

Janet Bush on Wall Street

Hedging proves a good bet

TO TALK to individual investors is to become increasingly aware of how disenchanted many of them are with the big brokers' services. It is no wonder that they are turning to consultants who advise them on alternative money managers with whom to invest.

Mr Bruce Hauptman left a career working for large brokerage because he felt that there was a clear conflict of interest between the drive to earn commission and the client's needs. He set up his own company, B. Hauptman & Associates of Fairfield, Iowa, which has a database of more than 800 investment managers and has more than 50 high net worth clients who have assets under management of $150m.

Mr Hauptman believes he has found a distinctive niche: there are consultants galore for large pension funds, but few for wealthy individuals who want something more than just a mutual fund.

For these people, so-called "hedge funds" are an attractive alternative. These funds, structured as private partnerships, have three main characteristics.

First, the money manager acts personally as general partner and is paid according to the performance of the fund: if it loses money, so will the manager. This, Mr Hauptman believes, gives the manager the incentive to do well for his clients and cuts out the conflict of interest.

Hedge funds are also more flexible. The fund can short stocks more easily than many pension funds, which are barred either by charter or choice from what they regard as speculative or complex trading strategies.

Third, hedged funds are freer to use leverage. Although mutual funds can do practically anything as long as disclosure is adequate, a lot of investors would be scared off by strategies using heavy borrowings to enhance potential gains.

The relative freedom from regulatory bureaucracy and restraints on trading strategies, which use a mixture of futures, options and different asset allocation models, has been leading to thumping rates of return.

A study of 63 hedge funds covering 1987 and 1988 shows that the average return of all these funds was 41.7 per cent compared with 22.6 per cent generated by the Standard & Poor's 500 including dividends and a 14.4 per cent average return on 512 equity oriented mutual funds.

One leading manager, using a leveraged option strategy for his own account, made an annualised loss of 3 per cent in 1986 and an astounding 194.7 per cent return in 1987 followed by 137.3 per cent in 1988.

Mr Hauptman believes it is ironic that laws such as the Investment Act of 1940, written to protect individual investors, have actually reduced the information available on hedged funds, which can offer high returns, but remain the preserve of sophisticated investors.

Under Securities and Exchange Commission guidelines, there can be only 100 partners in each fund and each individual has to demonstrate net worth of at least $1m.

Mr Hauptman bemoans the fact that the small investor still cannot get his hands on the best returns. That apart, though, who are his favoured managers?

One favourite is Paramount of Stamford, Connecticut, the new institutional arbitrage account of which made an annualised rate of return of 28.92 per cent in its first four months of this year. Paramount's Mr Jack Naiditch said that the fund makes money on announced takeover plays, avoiding arbitrage on rumoured bids as "garbitrage."

Mr Naiditch believes investors are turning to funds which use non-traditional equity investment to achieve relatively low volatility and high returns. Using options and futures, it is perfectly possible to hedge an entire market but still capture the gains.

Another is First Security Management of New York which has made a compounded annual rate of return over the last 13 years of 26.1 per cent on its hedge fund compared with 14.4 per cent on the S&P 500.

First Security's Mr Morty Schaja stresses that their investments tend to emphasise small to medium companies with strong free cashflow, companies which the fund tries to get to know well.

Using derivative products, the fund is short of the equity market as a whole but still invested in individual stocks.

POLISH ELECTIONS

Survey suggests big Solidarity lead

By Christopher Bobinski in Warsaw

A POLISH Government opinion poll forecast a big lead for Solidarity as Poles flocked to vote yesterday in the freest elections Eastern Europe has seen since the 1940s.

In a preliminary forecast on state television, the poll said the Solidarity-led opposition would win 40 out of 55 seats in the 100-seat Senate (upper house) that were likely to be decided in the day's voting.

Solidarity is expected to lose no more than 20 per cent of its Sejm (lower house) allocation to government backed independents and Solidarity dissidents running against Mr Lech Walesa's candidates.

Solidarity is competing with official candidates for all 100 seats in the Senate and putting up 161 candidates for the 35 per cent of the lower chamber reserved for the movement under its agreement with the authorities.

With polling stations closing at 10pm local time and the first results expected later today, official spokesmen yesterday said the turnout had been high and that 30 per cent of the 27m electorate had voted by noon. Mr Janusz Onyszkiewicz from Solidarity said the day "had gone quietly and well."

In Warsaw, the Polish capital, queues formed at polling stations as people inside the booths struggled with a complex voting procedure which required people to cross scores of names off multiple ballot papers. Solidarity supporters sat outside the station ready to offer advice to those who were still unclear about how to vote.

The authorities are heading for a fall, with many Poles both in the town and the country determined to vote against official candidates, thus possibly denying them 50 per cent of the ballot vote needed to get into Parliament.

Successful candidates need a 50 per cent minimum of the valid vote on the first ballot, otherwise they have to compete in a second round of voting on June 18.

John Lloyd writes from Gdansk: Voting in Solidarity's birthplace, was heavy yesterday, with Solidarity activists at the polling stations reporting voting for their candidates as high as 80 per cent.

Speaking after a Mass in St Brygida's church, near the shipyard, Mr Walesa called on all Poles to "show the world that we are responsible – don't let emotions carry you away."

In an interview given to state television from the garden of his home on Saturday night, Mr Walesa advised his supporters to vote for all but one of the 35 names on the "national list" – the group of Government and party leaders standing in a special section without opposition but, under the terms of the Round Table accord, requiring 50 per cent of the votes cast.

This contradicts advice given by many of his followers in the regions. In the town of Ostroda, for example, 200 kilometres north of Warsaw, Solidarity activists were distributing cards to voters instructing them to cross off all 35 names.

Government and party leaders fear that the activists will carry more influence. In an interview last week, Mr Jozef Czyrek, second in the party hierarchy to General Jaruzelski, said that if the national list failed to secure the required 50 per cent, it would cause a "political and constitutional impasse."

In an national address on Friday, General Jaruzelski called for a "broad, post-election coalition," including Solidarity representatives, to push through economic reforms and consolidate democracy.

Capitalism at Gdansk, Page 6

Solidarity leader Lech Walesa casts his vote yesterday in Gdansk. He urged voters "don't let emotions carry you away."

Opec ministers edge towards agreement on raising output

By Steven Butler in Vienna

OIL ministers of the Organisation of Petroleum Exporting Countries yesterday appeared to be moving toward agreement on raising the organisation's overall production ceiling by at least 1m barrels a day (b/d).

Such an accord, which would probably involve raising the permitted output ceilings of Kuwait and the United Arab Emirates, is thought likely to buoy oil markets, which have been concerned that ministers may fail to agree at their Vienna meeting. The markets fear that lack of a new production agreement could lead to a further deterioration in production discipline by the organisation's members currently working under a notional 18.5m b/d ceiling - possibly leading to a glut of oil on markets.

Talks continued in Vienna yesterday before the official opening of the semi-annual ministerial conference today. The meeting is expected to go ahead in spite of the death of Ayatollah Khomeini, the Iranian spiritual leader.

Mr Gholamreza Aghazadeh, Iran's oil minister, said his government had instructed him to stay in Vienna. Mr Aghazadeh said he expected demand for Opec oil to rise by at least 1m b/d in the second half of the year, but that the question of how to allocate any increased production among Opec members had not been resolved.

However, he hinted at the possibility of special quota allocations to Kuwait and the UAE, as both have demanded.

"The question of percentage shares is less important than before," he said, referring to the contentious November meeting at which Iran resisted any erosion of its share of Opec production, while Iraq was given a big increase.

Mr Aghazadeh indicated he would support an increase in the Opec ouput ceiling but only on the basis of ensuring a reduction in cheating on quotas. Kuwait has warned that it would continue to violate its quota unless it is granted what it considers to be a realistic increase, of hundreds of thousands of barrels a day. Kuwait is producing over 1.7m barrels a day compared to its quota of 1m b/d.

Brussels to seek Italian steel plant closure

By William Dawkins in Brussels

THE European Commission will this week call on Italy to close its Bagnoli steel smelter near Naples by next March if Rome wants EC clearance to bail out the rest of its state-owned steel industry.

Italy had promised to close the 2.7m-tonne furnace by the end of this month, the main condition for permission to proceed with a L5,198bn ($3.6bn) rescue plan for Ilva, its state-owned steel group. It later asked for a one-year reprieve when the prospect of the loss of 2,000 jobs sparked off riots in Naples.

Sir Leon Brittan, Commissioner for competition policy, will ask his colleagues this week to sanction only a nine-month delay. That is on condition that the decision to shut Bagnoli is final, rather than reassessed in light of market conditions, as Italy had asked. Unanimous approval is needed for the plan, due for discussion at a meeting of EC Industry Ministers on June 21.

Italian officials had urged Brussels to delay the proposals because the collapse of their Government made it hard to take a position on such a sensitive topic. But the Commission wants Bagnoli's fate decided before the original closure deadline of June 30.

It is unclear whether the rescue terms will win the support of West Germany, which feels Italian steel should be forced to restructure quickly. The proposal is designed to steer between the Italian wish for longer delays and West German toughness. It would allow Italy to pay two-thirds of the L5,198bn aid after accepting the package, with the rest after Bagnoli's closure.

France eases immigrant laws

By Ian Davidson in Paris

THE French Socialist Government has eased the rules governing foreigners resident in France, in a law steam-rollered through the National Assembly early yesterday.

The conservative opposition parties, having failed to block the new law through six days of filibuster and more than 250 delaying amendments, have tabled a censure motion which is likely to be debated this week.

This will be the second conservative censure motion in three weeks; a motion attacking the government's European policy was defeated on May 16.

The new censure motion claims that parts of the new law are unconstitutional, and argues that it will have the effect of provoking a new wave of clandestine immigration. The motion is most unlikely to secure a majority, since the Communists are expected to abstain as they did yesterday.

Still, the censure debate will be an important test of the personal resilience of Mr Jacques Chirac, leader of the RPR Gaullist party.

Mr Chirac has been virtually silent in public since his defeat in the Presidential election a year ago; but he has now apparently decided to take his party in hand again, and to lead it in this week's censure debate.

Debate over the new law has provoked the first really intense political clash between government and opposition since the Socialists returned to power a year ago. Breaking with traditional political etiquette, the opposition has used the debate as a platform for personal attacks on President François Mitterrand, who demanded the new law.

The controversy is expected to spill over into the European Parliament election campaign, which has just opened, and may well play into the hands of the extreme right-wing National Front party, headed by Mr Jean-Marie Le Pen.

Opposition politicians have accused the government of deliberately timing the new law to maximise the embarrassment of the conservative and Gaullist parties in the run-up to the June 18 poll.

The new law makes no change in the severity of France's immigration policy. But it eases the rules and procedures which govern the treatment of foreigners resident in France.

It replaces measures introduced three years ago which gave the authorities a virtually free hand to expel any unwelcome foreigner.

A city mourns its dead as the tanks take control

Continued from Page 1

black writing on white cloth, stood in the path of a convoy of about 50 tanks and armoured personnel carriers. About three blocks from Tiananmen, a line of 10 buses, some alight, blocked the road. Protesters threw stones at the vehicles. In reply, soldiers fired indiscriminately into the streets.

Groups of residents gathered in the labyrinthine backstreets, discussing the massacre of the night before in voices hushed by disbelief and fear. It is said that during one of their disputes, Zhao Ziyang, the party chief, told Deng Xiaoping, that he, Zhao, had China's billion people behind him. Deng said that did not matter: he had the People's Liberation Army.

A young man who had come to the front line to look at the troops in the square said the killing was a tragedy – "perhaps it is the worst tragedy for the Chinese people." The Communist Party maintains that the "party commands the gun." Another young man said wryly "this is politics in command."

He described how two of his friends had been shot, one killed and the other seriously wounded, in the battles of the night before.

In the small huddles in the hutongs – the back alleys – people were trying to make sense of the inexplicable. Shops were closed and their windows boarded in the main business district. Smoke hung in the air throughout the city yesterday,

The plunge into chaos has been too shocking for anyone in the capital to comprehend. Peking could not come terms with itself as a city under siege. For the past few weeks, Tiananmen square has been a mass of red flags and often humorous banners fluttering in the breeze. The Peking people, buoyed by the strength of numbers taking their democracy demands to the streets, had been unusually optimistic. Yesterday, that optimism was turned into shock and disbelief.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	21	70	Dubrovnik	R	20	68	Malta	S	24	75	Rhodes	S	24	75
Algiers	F	24	75	Edinburgh	F	14	57	Manchester	S	14	57	Rio de J'o	C	27	80
Amsterdam	R	9	48	Faro	S	21	70	Manila	C	35	95	Rome	F	21	70
Athens	S	25	77	Florence	F	22	72	Melbourne	C	11	52	Salzburg	C	12	54
Bahrain	S	35	95	Frankfurt	C	12	54	Mexico City	F	27	81	San Francisco	C	14	57
Bangkok	F	34	93	Funchal	C	21	70	Miami	S	27	81	Seoul	S	26	79
Barcelona	S	18	64	Geneva	C	17	63	Milan	F	20	68	Singapore	F	30	86
Beirut	*	-	-	Gibraltar	S	23	73	Montreal	R	15	59	Stockholm	Dr	10	50
Belfast	C	13	55	Glasgow	F	15	59	Moscow	T	20	68	Strasbourg	C	15	59
Belgrade	R	19	66	Guernsey	S	13	55	Munich	C	14	57	Sydney	R	15	59
Berlin	C	14	57	Helsinki	S	25	77	Nairobi	F	25	77	Taipei	C	26	79
Biarritz	C	16	61	H. Kong	C	28	82	Naples	C	18	64	Tangier	F	21	70
Bombay	F	29	84	Innsbruck	R	12	54	Nassau	F	30	81	Tel Aviv	S	29	84
Bordeaux	C	19	66	Inverness	S	13	55	New Delhi	*	-	-	Tenerife	S	23	73
Brussels	C	10	50	Islamabad	F	38	100	New York	S	22	72	Tokyo	S	27	81
Budapest	F	21	70	Istanbul	S	22	72	Nice	S	20	68	Toronto	C	15	59
B. Aires	C	20	68	Jakarta	R	32	90	Nicosia	S	24	75	Tunis	F	24	75
Cairo	S	31	88	Jersey	S	16	61	Oporto	S	18	64	Valencia	F	20	68
Cape Town	Dr	15	59	Jo'burg	*	-	-	Oslo	F	18	64	Venice	F	21	70
Caracas	C	28	82	Lima	C	19	66	Paris	F	15	59	Vienna	C	16	61
Casablanca	F	21	70	Lisbon	S	20	68	Peking	T	27	81	Warsaw	F	19	66
Chicago	S	12	54	London	F	14	57	Prague	C	14	57	Washington	S	24	75
Cologne	R	10	50	Los Angeles	C	16	61	Reykjavik	C	5	41	Zurich	F	14	57
Copenhagen	F	15	59	Luxembourg	F	10	50								
Corfu	S	27	81	Madrid	F	19	66								
Dallas	*	-	-	Majorca	S	22	72								
Dublin	C	13	55	Malaga	F	21	70								

Readings at mid-day yesterday

C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Rail blast kills hundreds

Continued from Page 1

fire, Mr Cherepanov said. "At least half the people died. That means 650, maybe more."

The first pictures on Soviet television last night showed horribly burned victims arriving at Chelyabinsk airport, their faces burned black and limbs crudely bandaged.

The accident occurred just before midnight on Saturday night, on the main trans-Siberian railway line between the cities of Ufa and Chelyabinsk, near the town of Asha.

Tass said that "by a tragic coincidence" the gas blast happened "just as two opposite passenger trains were passing by." One train was travelling from Novosibirsk, the principal city of southern Siberia, to the Black Sea resort of Adler, near Sochi, and the other from Adler to Novosibirsk.

The gas pipeline west of Chelyabinsk is the main line carrying natural gas from the Tyumen fields, the largest single source in the Soviet Union, and links with two others.

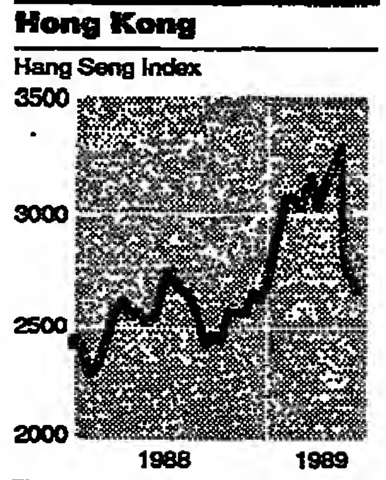
THE LEX COLUMN

Heading for a safe haven

The stock markets of Japan and France reached new peaks last week and the US, Canadian, West German and Swiss markets ended at their year's high. However, the bullishness which has swept most equity markets to levels that were unimagined at the start of the year could be tested by the weekend's events. It will be many months before the full implications of the upheaval in China and the death of Ayatollah Khomeini are known, but a further element of uncertainty has been added to financial markets which already seemed to have lost touch with underlying economic fundamentals.

Hong Kong is the most obviously vulnerable financial centre. Its stock market had fallen by close to a fifth in the fortnight leading up to this weekend, and property values already looked inflated. No one has any real idea about how the power struggle in Peking will affect the colony, but the assumption must be that the exodus of Hong Kong's skilled personnel and its companies will now accelerate following China's biggest upset since the Cultural revolution.

Meanwhile, the lack of an obvious successor to Ayatollah Khomeini has injected yet more confusion into the oil market, where the price has jumped by over 50 per cent since early October. The net effect of this, combined with the uncertainty in China, will be to hasten the flood of flight money into safer political havens. In the short term, at least, this will tend to give further impetus to both the US dollar and Wall Street. However, a further sharp appreciation in the dollar is storing up problems which will eventually come back to haunt the financial markets.



Media Partners

The son of News Corporation, or Media Partners International(MPI) to give it its correct name, is having a difficult birth. And while it may not be stillborn, it may not emerge strong enough to create the sort of financial terror in the global media and communications industry intended by its proud father, Mr Rupert Murdoch. Three months after News Corp said it was seeking to raise $1.5bn of equity, and probably twice as much again in debt, there is increasing talk that the launch of MPI – the primary vehicle for Mr Murdoch's future acquisitions – may have to be delayed.

Although the amount expected to be raised appears to have been scaled back, MPI's sponsors still seem to be having some difficulty rounding up 40 wealthy investors prepared to chip in $25m apiece to provide the minimum $1bn that will enable Mr Murdoch to play the market. Given that MPI's first acquisition will be News Corp's own publishing assets, which could easily cost $1.2bn, it does not leave it a tremendous amount of financial flexibility to pursue the acquisitions which are going to provide the compound rate of return in excess of 25 per cent which is targeted for MPI's ten year life.

In terms of News Corp's immediate debt reduction strategy, the need for MPI is less pressing than it was a few months ago. US interest rates are now heading lower rather than higher, and with the sale of its Travel Information Group to Reed, News Corp has raised more than $1.6bn since the $2.8bn Triangle acquisition seven months ago. This is well ahead of its target of $1bn of asset sales by the end of June, and there are plenty of other properties, such as Fox Film, which could be sold if the main objective was to reduce News Corp's traditionally aggressive gearing.

However, MPI remains the key to any restructuring of News Corporation and is one of the reasons why News Corp's shares have performed so strongly recently. If MPI can live up to its heady objectives, News Corp's own shareholders should benefit handsomely. Not only should News Corp show a profit on the sale of its publishing businesses to MPI, but the reduction in future gearing levels should improve both the level and quality of its own profits. Meanwhile, News Corp will collect a hefty annual advisory fee, and lucrative incentive payments – provided MPI achieves a compound return of over 20 per cent per annum – mean that it will continue to enjoy the benefits of controlling MPI while sharing in far less of the financial risk than in the past.

Mr Murdoch's financial and entrepreneurial flair is not in doubt. But it is hard to make a compelling case for investing in what the Americans call a blind trust. The shares will not be easily tradeable, and Mr Murdoch's recent investment record, particularly in TV, has not been an overwhelming success. What, for example, is to prevent News Corp selling its loss-making Sky TV to MPI?

In the City of London at least, there are still painful memories of Slater Walker's highly geared Dual Trust – nicknamed the Dustbin trust – set up to invest in Slater's own satellites a couple of years before the stock market collapse. Like Mr Murdoch, Mr Slater once had a name which was near magic in stock market circles. However, the biggest shortcoming with MPI is that Mr Murdoch's family fortune is invested in News Corporation, and as long as it remains this way, anyone wanting to back Mr Murdoch would be best advised to put their money where he does.

Brierley

The fact that Sir Ron Brierley has raised some £250m from his UK portfolio since January might suggest that he expects New Zealand's recession to start exporting itself round the world in the near future. Last time the markets delivered cheap buying opportunities, Sir Ron was too highly geared to make much of them; he clearly does not wish to make the same mistake twice.

Nonetheless, the rationale behind the major sales and purchases of the past few months seems to have been less visionary than purely pragmatic: of the 80-odd holdings in the portfolio originally, the majority were mere scraps of stakes which did not add up to a coherent whole. Others – like Ultramar and English China Clays – were large enough to matter, but as bid targets, they were probably too large for comfort. And with Sir Ron's New Zealand operating companies under pressure from the aforesaid recession, any UK assets which did not pull their weight simply had to go.

But if Sir Ron has been raising money with one hand, he has been spending it with the other: on Mount Charlotte and Vickers, and last month on Union Discount, which had the merit of being cheap at the price.

SECTION III

FINANCIAL TIMES SURVEY

The venture capital industry has been investing record amounts throughout Europe. Nevertheless, prospects for the enterprise culture in the 1990s will depend on how well governments fine-tune their policies and upon the business acumen of thousands of individual entrepreneurs, as **Charles Batchelor** explains here.

A decade of enterprise

FROM some unpromising beginnings, the 1980s have turned out to be the decade of enterprise. In Britain, as in most of the developed countries of the world, the evidence of a growth of the new enterprise culture has become steadily more apparent.

The numbers of new business start-ups in the UK are setting new records. No fewer than 1,400 new companies are now registering for Value Added Tax each month, more than twice the average level recorded during the 1980s as a whole.

The venture capital industry – which provides equity capital to fast-growth companies – has been investing record amounts throughout Europe. Much of this money is going to back the growing numbers of big company managers who want to mount buy-outs and buy-ins. So numerous are these refugees from the larger corporations that there is an acute shortage of good target companies.

And after a decade during which most books published about the small firm were guides on how to succeed there is now a lengthening bookshelf of titles about entrepreneurs who have realised their ambitions. Magazines, too, which usually devote their business sections to the large 'Fortune 500' companies have started writing cover stories on the phenomenon of the growing business.

The small company has traditionally played a less important role in the British economy than its counterparts in many countries on the Continent. Despite, or maybe because of the big business bias in the UK, it is Britain which has taken the most innovative approach to backing smaller businesses over the past nine years.

Reliable figures are difficult to come by because small firms are often difficult to track, but according to one study, more than 96 per cent of all businesses in Britain employ fewer than 200 people. They provide 35 per cent of all private sector jobs and 20 per cent of business turnover.

Eighteen years after the publication of the Bolton Committee Report, which recommended more help for the small business, the importance of the smaller company is now fully appreciated. So much so, in fact, that there are now clear indications that perceptions of the small business are undergoing a second important shift.

The small business is no longer seen as a separate, clearly identifiable organisation with only limited ambitions. Early enthusiasm for the small firm had threatened to create a ghetto mentality, cutting off these companies from the economic mainstream.

While most small companies will remain small a significant minority will outgrow this label. And even those which do not, usually count large companies among both their customers and their suppliers.

Government policy has moved away from providing specific help for the small company to creating a favourable economic climate for businesses both large and small. The Enterprise Initiative, for example, a £250m three-year programme which provides subsidised consultancy help, is available for companies employing up to 500 people, a definition which excludes only a handful of very large companies.

The message that small firms need no longer be regarded as an endangered species was confirmed by the decision earlier this year to rename the European Commission's Task Force for Small and Medium-Sized Enterprises. It is now called the Directorate General for Enterprise Policy.

This title represents both a promotion for the unit, and, in the view of Mr Alan Mayhew, its head, an attempt to dispel the idea that there is a distinct section of the business community which needs special protection.

For all this enthusiasm for small-scale enterprise, however, the immediate future is clouded by recent sharp increases in interest rates. A Confederation of British Industry report published last month recorded a sharper decline in small firms' business confidence than at any time over the past 6½ years. Small business owners expect their costs to rise in the near future and both domestic and export demand to decline.

The present high rates of interest have revived long-standing calls for Britain's smaller companies to be given access to cheaper finance. The Union of Independent Companies, one of the small firms' lobby groups, is pressing for the creation of a Business Development Board. The UIC wants the board to have £1bn of capital to provide subsidised, fixed-rate loans to smaller companies, along the lines of the West German Reconstruction Bank, which provides small firms with cheap loans.

But the small firms sector also has longer-term concerns about its future. The impact of 1992 and the creation of a single barrier-free European market raise important issues which many small and medium-sized businesses are unsure how to address.

Many companies operating in fairly narrow, local markets are taking the view that they will be unaffected by the changes. But the more thoughtful business owners are considering what they need to do to open up new markets in Europe and to defend those they already have.

"Often the single market seems to have little immediate relevance to the small business," said Mr John Parsons, a small firms representative on the British Overseas Trade Board. "But the need for smaller firms to begin preparations now is every bit as urgent. Getting used to the single market will often mean bigger changes than for larger businesses."

Britain's small business community also faces changes at home in the way training and advice services are provided. The government is setting up Training and Enterprise Councils (TECs), employer-led organisations which are intended to co-ordinate the provision of training schemes on a local basis.

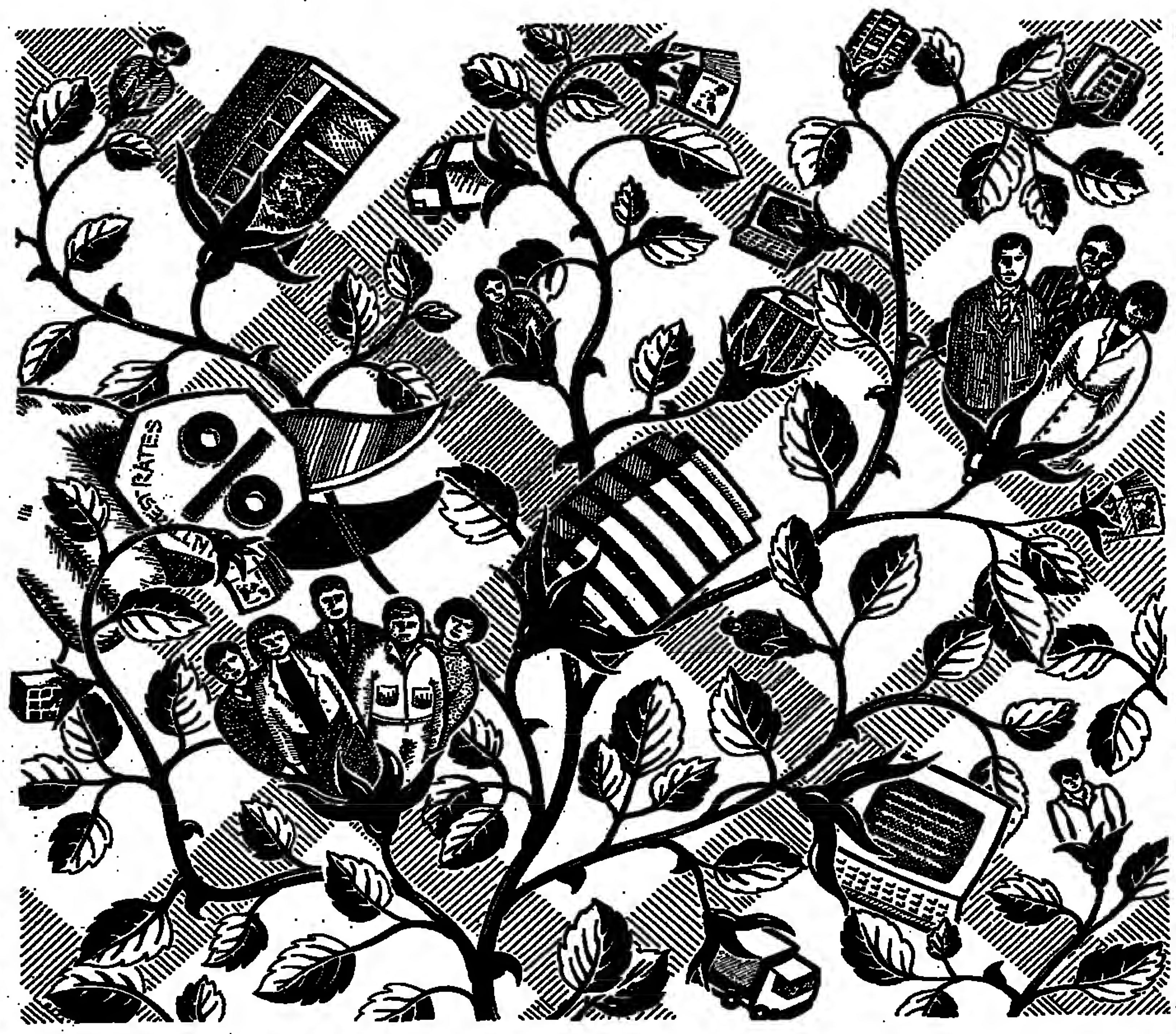
The TECs are intended to work closely with the existing network of more than 300 enterprise agencies. They will also take responsibility, on a local basis, for running the Enterprise Allowance Scheme, which helps the unemployed start in business, and the Small Firms Service, which provides advice and counselling.

The TECs are not specifically aimed at the smaller company though it is these firms, which are less likely to have in-house training departments, which will be most affected by any changes. Small businesses are traditionally reluctant or unable to devote much time to training so one measure of the TEC's success will be their ability to increase the take-up of training courses by the smaller company.

The enterprise agencies, a network of more than 300 advice centres which has been created over the past decade, are also undergoing change. The Government is phasing out its support so the agencies must try to become self-financing.

There are fears that this will force the agencies to abandon their traditional role of advising unemployed people and others on how to start up in business because they cannot recover their costs from these clients. The agencies will inevitably move to helping only those more established businesses which can pay for their services, the pessimists claim.

Continued on page 3



Growing Businesses

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□ *Illustration on this page by David Worth.*

RAISING FINANCE

The biggest hurdle

RAISING money remains one of the biggest sources of difficulty for the growing company. Small firms have a higher failure rate than established businesses, so the providers of finance are understandably cautious. But small businesses also lack the negotiating muscle to deal with the financiers and usually end up paying more for their funds.

The sharp rise in interest rates over the past year has increased financial pressures on most businesses and given an added urgency to money matters.

The cost of money would not be such a problem for the smaller firm if Britain were prepared to emulate the Germans and the Japanese in providing cheap-rate finance to small businesses, according to the Union of Independent Companies (UIC), a lobby group for small and medium-sized companies.

The UIC wants the UK Government to set up a Business Development Board with £1bn of public money to provide subsidised loans to smaller firms. The board, modelled on the West German Reconstruction Bank, which recycles Marshall Aid funds to small firms, would provide fixed-rate finance for periods of up to 10 years. If the UIC's plan were adopted.

But until a government comes along which is prepared to back such a project, smaller companies will continue to turn to their bank manager for the bulk of their finance. The banks have approaching £30bn outstanding to small firms and account for 90 per cent of all lending to this sector.

Small businesses have become the object of much of the bankers' promotional efforts in recent times. But relations between the banks and their smaller business clients have not been entirely smooth.

The past year has seen a stream of critical studies of the way banks treat small businesses. The Forum of Private Business, another small firms lobby group, has produced two reports criticising the banks for providing a poor service, for charging too much and for failing to compete.

The problem with Britain's banks is that they have historically placed most emphasis on protecting their depositors, according to Mr Martin Binks, a Nottingham University researcher who prepared the Forum reports. He contrasts this approach with the attitude of banks on the Continent and in Japan, which see themselves as intermediaries between private sector sources of finance and the business community.

The banks have been making efforts to improve their service to their business customers. In February, Lloyds Bank launched a £35m programme to create small business centres in 500 of its 2,000 branches while the other major banks have also been training small business specialists. The banks have also been trying to simplify their charges and provide more fixed interest loans which allow small firms to plan ahead.

The past year has seen a stream of criticism of how banks treat small businesses, says Charles Batchelor

The venture capital community has also received a fair amount of criticism in recent months. Venture capital – equity finance provided by specialist investment companies – has undergone rapid growth in the past 10 years and is now an important source of funds for many fast-growth companies. Venture capitalists invested £1.39bn in 1988, 35 per cent more than in 1987.

The amounts invested in small and early-stage businesses have been rising but venture capitalists have also invested ever larger sums in management buy-outs and buy-ins. These investments have proved far more profitable than the riskier, early-stage investments and usually require less work.

The venture capitalists appear to have taken the criticism to heart. The British Venture Capital Association is considering establishing a number of new seed capital funds with between £5m and £10m of finance each to specialise in helping very early stage ventures in fields such as the bio-sciences and medical products to get started.

One response to the professional venture capitalists' move to larger and safer investments has come from local authorit ies and enterprise agencies around the country which have set up small, local venture capital and Business Expansion Scheme funds.

A third source of finance for the growing company is factoring. The factoring industry has been promoting itself more aggressively over the past year or so as a method of financing business without disposing of shares (as is the case with venture capital) and without the need to pledge all one's worldly possessions as security (as is often the case with bank loans).

Factors provide a three-fold service. They can take over the administration of a company's sales ledger, sending out invoices and making sure bills are paid on time; they can provide immediate cash worth up to 85 per cent of their client's invoices; and they can assess credit risks and provide credit insurance.

Many companies regard factoring as unduly expensive – factors charge a percentage of turnover for their services – but for many companies it is the only way to finance growth. A total of 6,180 companies with combined sales of £8.8bn made use of the services of the 10 members of the Association of British Factors in 1988.

An increasing number of small businesses are doing without the services of the professional providers of finance altogether and are turning to private individuals for funds.

'Business angels,' as private investors are known in the US, have twice as much money available for investment than the professional US venture capital industry, according to some estimates.

Private investors, many of whom have business experience with larger businesses, often seek both a part-time involvement in the management of the companies in which they invest as well as providing equity and loan capital. Business angels are usually willing to take a far more long-term view of their investments than are banks or venture capital funds.

Enterprise agencies around Britain have set up "marriage bureaux" to bring together private investors and small firms seeking up to £150,000 through newsletters and meetings at which the companies present their business plans. Fifteen agencies have formed a national network called LINC so that businessmen can meet investors from other parts of the country.

Some providers of finance claim that no worthwhile business venture need suffer because of a lack of funds. But there are too many examples of ultimately successful businesses which have faced enormous difficulties in their early days in raising finance for this argument to be convincing.

Amex extends services

AMERICAN EXPRESS, long established as an expenses manager for large companies, is extending its services to small businesses as well.

For the first time, Amex is tailoring a range of benefits aimed at companies with turnovers of up to about £1m.

Initially four services are being introduced exclusively for small companies which use American Express cards.

These are: disability insurance, giving automatic accident disability cover of up to £20,000 for all staff who are company card members; a travel service; a hotel booking service with corporate discounts offering savings of up to 40 per cent; annual management reports for use in accounting, budget planning and reviewing expenses policy.

According to Amex, 48,000 small businesses use its company cards.

Mr John Petersen, general manager, says: "We are aiming to provide the type of services that leave entrepreneurs free to get on with making their business a success."

Government schemes for small businesses

No easy answers

BACKING BIG business such as steel, car manufacturing and shipbuilding cost the British Government (and other governments around the world) billions of pounds throughout the 1970s.

In comparison, the sums that have been devoted to the small business sector in the 1980s have been modest – but, in the UK, the Government has learned its lesson.

Small business support schemes have been probed for their effectiveness and their contribution to the economy. Two of the main programmes introduced in the early 1980s – the Enterprise Allowance Scheme and the Loan Guarantee Scheme – won encouraging notices in a recent review by the National Audit Office, an independent scrutineer of government spending.

A third programme, the Enterprise Initiative, is too new to have undergone serious public scrutiny, though the controls built into the programme testify to the Government's concern to get value for money. Both the the Enterprise Allowance and the Loan Guarantee Scheme were introduced in 1981, a bonus year for the small firms sector.

At that time, reducing the large numbers of the unemployed had a high priority while the problems small businesses had in raising finance was also a source of major concern. Unemployment has since fallen and far more finance is now available, but the two programmes have been maintained.

The Enterprise Allowance Scheme provides £40 a week for a year to unemployed people who want to start a business.

The aim is to compensate people for the loss of unemployment or supplementary benefit while they are setting up in business. Effectively, it legalised people who would otherwise have been tempted to work "black" while claiming benefits.

To test the commitment of participants, they must put £1,000 of their own money into the business, though this can take the form of a loan or a bank overdraft. A total of 330,000 people had taken part in the scheme in the six years to April 1988, at a cost of £545m.

Mr John Cope, Employment Minister, meets managers of small companies in South Yorkshire

How successful are the businesses set up under the scheme? The National Audit Office review found that 57 per cent of businesses formed were still in operation after three years. This survival rate is lower than 68 per cent achieved by businesses which register for VAT, but given that some of the Enterprise Allowance companies may have been set up by people desperate to get off the dole, a higher percentage of failures is perhaps to be expected.

Two-thirds of the companies set up under the scheme do not create jobs for anyone other than the founder, while only four per cent accounted for more than 60 per cent of all the jobs created, Training Agency studies have shown.

This skewing of job creation to a small minority of firms is not peculiar to the Enterprise Allowance Scheme, however. Other studies of small businesses have shown a minority of firms create most of the jobs.

One Enterprise Allowance business which has made a major contribution to jobs is Superior Cleaning Specialists of Whitley Bay, Tyne and Wear. Starting with a contract to clean British Telecom's phone boxes in Edinburgh, Mr David Rafferty, then 33, set up his company in early 1987. Within two years his business has grown to employ 110 people and produce turnover of £1.3m.

Unlike the Enterprise Allowance Scheme, which has remained in its original format since it was launched, the Loan Guarantee Scheme has seen constant tinkering. Designed to provide a government guarantee for loans to companies which would otherwise not win backing, the scheme was forced to pay out large sums as many early businesses it financed went bust.

The terms of the guarantee were tightened up – and demand plummeted. Conditions have since been eased again – the guarantee covers 70 per cent of the loan for a premium of 3 per cent – but demand has never recovered to the early levels. An average of 600 applications are now being made each quarter for the guarantee, but this compares with around 1,500 applications in the scheme's earlier years.

A total of 21,000 small firms have been lent more than £700m under the scheme, including some notable successes such as Sock Shop, the specialist retailer, and Waterstone's, the bookshop chain. But the likelihood is that the scheme will make a much more modest contribution to financing small business in the future. Compared with overall levels of bank lending, its contribution is small.

The launch of the Enterprise Initiative in January 1988 reflected a shift in government thinking away from backing the start-up business towards help for the more established company.

The Enterprise Initiative provides subsidised management consultancy advice in six areas: design, marketing, quality management, manufacturing methods, business planning and financial and information systems. The initiative pays half the cost (two-thirds in assisted and urban programme areas) of between five and 15 days of a consultant's time.

The Government has ambitious targets for the programme. It aims to help between 1,000 and 1,500 companies a month over three years at a cost of £250m.

Demand appears strong enough to meet these targets though aspects of the scheme have come in for criticism. Some people doubt whether consultants can provide meaningful help at the fee levels laid down by the government and whether small businesses can make proper use of consultancy advice.

But Mr Austin Smith, co-founder of a building surveyors' partnership, Hogben Smith Barritt, says the initiative helped him install a proper management structure to deal with the problems of rapid growth.

The partnership, which employed 120 people in 12 offices round the country, established a management board and sub-committees to handle questions such as finance, client development and personnel.

Backing small business is a difficult task for governments. The small business-owner is suspicious of involving civil servants in his affairs. The greatest success seems to come from schemes which do not come direct from government but which are filtered through intermediaries such as banks or management consultants.

Charles Batchelor

EXPANDING ABROAD

Export fears unfounded

YOU CAN easily find the export department in many small companies, according to seasoned exporting consultants — "just look for the Portakabin in the car park," they say.

This is a clear indication that exporting is regarded by many as an optional extra which can be run on a shoestring. And yet, as Europe moves towards 1992 and the creation of a single barrier-free market, it is becoming harder for the growing business to ignore export markets. The experts say companies should start treating all their European business as a part of "domestic sales."

Many small businesses are discouraged about selling abroad by what they see as the additional complications of dealing in a foreign language, in unfamiliar currencies and with different tax and payments systems.

Some respond to the occasional export inquiry, but never go on to develop significant overseas sales. Others do not even reply to inquiries from potential customers abroad.

But if more small companies could be persuaded to take up exporting seriously, a large reduction would be achieved in Britain's growing trade deficit. A survey carried out by the British Overseas Trade Board in 1987 revealed that only half of the 12,000 British companies with turnover of between £1m and £10m were exporting and only one third of these — 2,000 companies — had a properly thought-out export strategy.

If the 4,000 "passive" exporters could be persuaded to become more active, Britain could increase its exports by more than £5bn a year, the report said.

Finance was top of the list of export worries expressed by the companies polled in this survey. However, while companies often do have to extend their credit terms when dealing with overseas customers, regular exporters say that their experience of delayed payments or bad debts is no worse with foreign customers than with those at home.

Also high among the concerns of would-be exporters were a lack of information about potential markets and a fear that their products would not be suitable.

Gathering market information about specialised market segments can be time-consuming but a wealth of information on more general trends is available free or at a low cost from government agencies, chambers of commerce, the press and export clubs. More detailed information is provided, for a fee, by market research organisations.

Products may well have to be modified to conform to local regulations and local tastes abroad, but by beginning with one product the manufacturer can test the market for others. Modifications made for overseas markets may spin off benefits for products sold in the home market.

Export documentation appears complex to the company unfamiliar with selling overseas, though life has become somewhat easier since the introduction of the Single Administrative Document in January 1988. This replaced more than 100 national documents, and covers all the documentation needed by customs in the European Community and many other countries.

Exporters will nevertheless still have to provide a number of other documents for the customer and the banks involved in financing the deal. Invoices will be needed, though it should be noted that they do not automatically trigger payment by the customer in many countries.

If only more small companies could be persuaded to take up exporting seriously, there would be a large reduction in Britain's trade deficit

Certificates of origin, available from the larger chambers of commerce, are required for many countries in Africa and the Middle East.

Documentary letters of credit are recommended as a means of ensuring payment from new customers or from less stable parts of the world, though the exporter must take great care to fill them in correctly.

Discrepancies between the letter of credit and other documents used in the transaction can lead to the bank refusing to sanction payment and lead to long delays.

Companies which build up a sizeable export business usually acquire the expertise to handle exports in-house, but the newcomer may be advised to use a freight forwarder or export agent to handle the paperwork. Freight forwarders typically charge between 2.5 and 5 per cent of the total freight cost for their services.

Many companies build up a large export business without ever speaking a word of their overseas customer's language. The pre-eminence of English in the world of business has persuaded many businessmen that they need not bother acquiring foreign language skills.

But businessmen who do speak foreign languages are convinced they owe their success and their knowledge of foreign markets and customers to the language.

"If I talk to my French customers in their own language, my message is undiluted," says Mr Jack Garbett, sales manager for F. Drake & Company, a Huddersfield-based supplier of yarns and textile products. "I hear their reactions and know exactly what they have said."

Without a knowledge of his customer's language, the exporter is dependent on his agent, distributor or the customer himself for much of his information. One small Birmingham manufacturer of specialised machine tooling built up a profitable business in France until a dispute arose with its agent in Paris. The agency agreement was ended and the British company faced losing business amounting to 20 per cent of its £1m turnover.

The company's managing director signed up with a local language school for a two-month intensive French course and was so successful in polishing up his schoolboy French that he was able to deal directly with his customers in their own language. Most of the business was retained; new business gained; and the Birmingham company even took on the UK agency for a French company making complementary products.

Finance, documentation, languages — the list of skills to be mastered does appear formidable. But very few companies will be able to ignore the impact of 1992, even if most of their business at present is with local customers.

For even if the British businessman ignores the opportunities of overseas markets, his foreign competitors are unlikely to ignore the UK.

Charles Batchelor

A decade of enterprise

Continued from Page 1

But a more widespread view among the agencies is that by rationalising the network, merging agencies which overlap in the same town, and by allocating specific tasks to certain agencies, they will be able to provide both a cost-effective and more professional service than in the past.

Standards vary between the agencies and scarce management skills could be used more efficiently if they could be concentrated on a smaller number of outlets.

It is not only the enterprise agencies which are facing pressures to rationalise. The whole network of government and private sector small firms advice agencies has grown to such an extent that potential clients are confused about who to turn to, some critics say.

Local Authorities, the Government's Small Firms Service, the enterprise agencies, innovation centres and, most recently, government business shops (which help with queries on tax and social security matters) all offer help to the smaller firm.

The Association of Independent Businesses, a lobby group, has called for a single nationwide network of High Street advice centres modelled on the Citizens' Advice Bureaux, to cut through this confusion.

The Government may have moved away from policies specifically aimed at helping small firms, but it did recently decide to continue two of its programmes which have done most for small business. They were the Enterprise Allowance Scheme, which provides £40 a week for a year to help the unemployed set up in business, and the Loan Guarantee Scheme, which gives a government guarantee for bank loans to small businesses which do not meet conventional banking criteria.

Both were extended last year after passing the scrutiny of by the National Audit Office, which monitors government spending.

The Enterprise Allowance Scheme has been criticised for providing only cursory training to those who join it but it has helped a large number of people since it was introduced in 1981 for only a moderate cost.

The Loan Guarantee Scheme has had a more chequered history. Many of the early loans were not repaid because the banks had little experience of dealing with this category of customer. Bank managers are still reluctant to lend under the scheme because of the official paperwork involved but the number of guaranteed loans made has increased recently

The Business Expansion Scheme (BES) has largely lost its role of channelling private funds into smaller companies since the changes announced in the 1988/89 budget. These restrict to only £500,000 the amount individual companies can raise through the Scheme, though companies providing property for rent may raise up to £5m.

The result of these budget changes has been that 95 per cent of BES finance now goes to property ventures, leaving very little over for the small trading or manufacturing company.

The growing business sector is considerably more robust than it was at the start of the 1980s, though the smaller company still has a failure rate far in excess of that of the larger, more established businesses. One-in-three small firms can expect to go bust within the first three years though this failure rate is halved if the founder takes advice and training.

MANAGING GROWTH

A fair share of the problems

BRITAIN'S small business renaissance has been reflected in the strong growth in the number of small companies in recent years. Little attention has been paid, however, to a decline in the number of medium-sized businesses.

In manufacturing, for example, the number of companies employing up 99 people rose from 69,000 in 1970 to 125,000 in 1986, according to the Census of Production. In contrast, the number of firms employing between 100 and 499 people fell from 5,100 to under 3,700.

This may in part be due to the country's very active mergers market which ensures that when small firms reach a certain size they are taken over by larger companies. But it also results from problems many small firms face in managing growth.

The entrepreneurial skills required to set up in business and survive the first few years are very different from those needed to handle expansion up to 200 or 500 employees. Some businesses mismanage growth and go under. A greater number opt for the simple life and mark time once they have reached a certain size.

"It is clear to us that the second stage in creating an enterprise culture has to be a focus on growth," says Prof. Stan Metcalfe, chairman of a study group examining the barriers to growth for smaller companies which has been set up by the Advisory Council on Science and Technology.

"It is not enough to spin off increasing numbers of small firms if they are not of sufficient size to throw their weight around in international markets."

An awareness of this problem is already reflected in a shift in the emphasis of government programmes towards the established and growing small company. The Enterprise Initiative, which provides subsidised consultancy for companies employing up to 500 people, targets subjects such as quality control, financial management and business planning, all of particular concern for the growing business.

A common problem facing such companies occurs when the founder of the business plays such a dominant role that a proper management structure does not develop. Managers and directors may be appointed but the real decisionsare taken by the person who started the business.

Mr Roy Phillips, founder of Roy's Cooked Meats, played just such a role up the point where his Swansea-based business was acquired by Cliffords Dairies, a publicly-quoted company, in August 1987. Under Mr Phillips Roy's Cooked Meats had grown in 22 years to turnover of £7m and a workforce of 150 people.

Cliffords called in Ashridge Management College, a business school based in Berkhamsted, Hertfordshire, to advise on broadening management at Roy's. Ashridge's Ms Julia Pokora said: "The old management team was very much centred round Roy. All the decisions and the disputes came to him rather than to his managers."

This not only meant that other managers failed to develop their skills in running the business but that Mr Phillips was unable to find the time required for long-term planning.

Part of the answer at Roy's, now renamed Roy's Quality Foods, was to appoint separate managers to three of the company's divisions which had previously been operated as one and to move to a system of weekly rather than quarterly performance reviews.

Even where there is a more broadly based management structure, growth can frequently lead to a gap opening up between managers and the workforce. Rapid Recall, a supplier of computer hardware systems based in High Wycombe, Bucks, ran into difficulties when growing competitive pressure forced it to switch the emphasis of its business away from supplying equipment to providing consultancy and other services.

Despite efforts by Rapid Recall to explain the reasons for change to its employees it found they had not grasped the need for the new direction the company was taking, and were dragging their feet. Even more worrying was the gap which had opened up between the firm's three directors and its four general managers.

The managers complained they were not being given enough responsibility. The directors, for their part, felt the managers were not competent enough to be given greater powers, says Mr Jim White, managing director of the £47m turnover company which employs 240 people.

Senior managers at Rapid Recall were taken on a two-day workshop in what Ashridge calls its "team-working" approach to management. Managers are taught to work more closely not just with each other but with any other person inside or outside their company who can help solve a particular problem. Rapid Recall set about improving its communications with employees through meetings, a newsletter and notice boards and devoted more time to explaining what it was doing and listening to its employees' views.

Strengthening the management of the growing business frequently means recruiting managers from outside the company. This is not always easy for the smaller company. Many managers think only in terms of the large corporations when planning their careers.

"It is difficult for the very small company to offer an attractive package," says Mr John Kennair, managing director of Romag Holdings, of Blaydon, Tyne and Wear, which makes toughened glass products. Romag, which achieved a 46 per cent increase in turnover to £5m last year, has nevertheless reached a size at which it can offer a share option scheme and a profit-sharing scheme to the directors of its subsidiaries.

A major problem facing the growing company which seeks to recruit managers is the lack of an obvious career structure. In compensation, however, the smaller company can offer young managers more responsibility and more direct links with senior management than the large corporation.

The particular challenge of handling growth is that it is a never-ending process. Once the issues associated with one stage of growth have been tackled, the company will have moved on to the next stage. Despite the apparent failure of many small firms to grow to medium-size, however, a number are adopting innovative solutions to the challenge.

Charles Batchelor

SUCCESSION ISSUES

Difficult decisions

Securing the future of many family companies raises complex issues, says Charles Batchelor

MUCH that has been done by governments to aid the growing company has been based on the assumption that, whatever else it may lack, the business has youth and vigour. The reality, though, is that many small companies are run by elderly men whose main preoccupation is how to arrange a transfer of the business to younger management.

For all the growth in interest in secondary stock markets throughout Europe, the number of listed companies is small compared with their private, usually family-owned counterparts. The challenge facing these companies is how to secure their future while at the same time maintaining family control.

Tales of dissolute eldest sons dissipating the family fortune are generally the stuff of fiction, but on a more humdrum level many fathers face difficult decisions about bringing their children into the family firm.

Succession has often been seen as a tax question – though recent British budgets have removed some of the stings of inheritance taxes. But even more important are the management issues involved. How should the new head of the company be selected? Should he (or she) come from the family or from outside?

How should the new man or woman be trained and brought into the company? And how can the interest and loyalty of non-family managers be retained if they know they can never take over the most senior job?

It is questions like these which have been concerning Brian Pearce, now 57, and the sixth generation of his family to head Pearce Signs, a sign-making company based in New Cross in south-east London. The company has 740 employees, a turnover of £25m and claims to be the largest sign-maker in Europe.

Mr Pearce is now devoting a great deal of thought to grooming his son, Nicholas, aged 30, for the succession. Mr Pearce insists that it is not automatic that his son will head the company, but he is being given experience on the managerial ladder.

Nicholas first qualified as an accountant, went on to become personal assistant to his father, then spent a period in sales before becoming general manager for the Kent region. His career development has been handed over to Pearce's managing director.

Mr Pearce Snr says that, in terms of working relationships, he has no more to do with his son than he would with anyone else in that position though Nicholas does take part in more company functions than would a non-family manager.

A major problem facing companies such as this is that traditional training methods for managers do not take into account the special problems of the family-run business. The conventional management school approach can provoke conflict once the student returns home.

He would go back, having learned a lot of theory and tell his father he was not running the company properly, says Laurence Handy, MBA programme director at Ashridge Management College. Ashridge has devised a course which, while not expressly designed for the family company manager, does involve the student in a project related to his own family business.

Clive Cutler, aged 43, took the Ashridge course as part of his grooming to become chairman of Pearce & Cutler Group, a Birmingham-based company engaged in glass processing and the manufacture of curtain walling. Despite having qualified as a chartered accountant and spending 20 years with the family company, Mr Cutler says he felt he needed formal management training to head a business with nearly 500 employees and sales of £21m.

"If we are to go to the Unlisted Securities Market, I have to have credibility," he says. "Twenty years' experience in a private company is not enough and I have to put that right."

Ideally, he adds, he would have spent five years in a different business working with people who did not know he was the son of the chairman.

Transferring control of a company from one generation to the next is not always a smooth process – "there can often be savage battles," warns John Stanworth, a small business specialist at Central London Polytechnic.

To ease the change-over at Pearce & Cutler, Clive Cutler's father brought in Mr John Given, a Scotsman with wide management experience, as temporary non-executive chairman.

Sometimes, it is the new generation which wants a safety device built into the change-over. When Mr Anthony Poeton returned from running his family company's German subsidiary to take over as managing director in Britain, he asked for someone to be appointed to arbitrate in any disputes. A mediator was appointed from the firm's auditors, but there were no disputes and after three years the arrangement was ended.

Mr Poeton also insisted his terms of reference were set down in a formal contract of employment with A.T.Poeton, a manufacturer of surface coatings which has sales of £4m and 140 employees.

Just as important as ensuring that the next generation of the family fit in well is the question of how to motivate managers who are not members of the family.

A start can be made by only appointing family members who would have made it on their merits anyway – however difficult it is for a father to be dispassionate about his childrens' qualities.The owners must also make sure that only the family is seen to be benefitting from the company's success.

Some accountants and merchant bankers who deal with private companies believe that in Britain at least the tradition of passing on the family company to successive generations may be weakening. It is so easy now to arrange the sale or flotation of a private company that more families in future will take out their money rather than stay to solve the problems, they say.

But, despite the fact that stock market listings and corporate sales have reached record levels in recent years, family ties are strong. The family business has proved a durable institution in the past and seems likely to remain so for a long time to come.

Group expands into Europe

VIKKI STACE, formerly a marketing and publicity director with a large publishing house, started her own public relations business in London with what she calls a "one woman plus secretary show" in 1985, but her business – the Powerhouse Group – has seen rapid expansion and now has three companies within one group, specialising in corporate affairs and consumer marketing, European Community affairs, national and local government and the publishing industry.

The group has offices in Brussels and Paris and expects to increase turnover by 50 per cent this year. Powerhouse has been appointed as public relations consultancy to the planned Sunday newspaper, The Sunday Correspondent.

Powerhouse Europe has linked up recently with John D. Wood Commercial and Jeffcote Donnison International, chartered accountants, to set up a European advisory group for companies seeking to make the best of marketing opportunities in 1992 and beyond.

Although the Powerhouse accounts are handled "at the most senior level," this factor, in turn, highlights one of the most common management issues which small businesses run into: how does the key generator of a business disengage from the executive level to take on the time-consuming duties of owner/chairman of an expanding company?

"Finding the balance is not easy when clients consider you synonymous with the company," says Vikki Stace, who invested at an early stage in a comprehensive management structure for the expanding group.

Vikki Stace: "Finding the right balance in a growing business is not easy."

QUALITY MANAGEMENT

Increasing pressure to improve products

THE OWNER of the smaller business often identifies more closely with his or her products or services than the manager of the larger company. Yet relatively few small companies adopt a coherent approach to the question of quality.

Quality management tends to be neglected because few companies know how to go about it, beyond checking the finished items as they come off the production line, and because its impact on profit margins is difficult to gauge.

Increasingly, however, pressure is being put on the businessman by his customers and by the law-makers to improve quality. Large companies in the automotive and retail fields, for example, and public sector organisations such as the Ministry of Defence and the National Health Service already insist their suppliers meet prescribed quality standards.

Britain's adoption in February 1988 of the European Community directive on stricter product liability has given added urgency to the quality issue. Under the Consumer Protection Act of 1987, customers no longer have to prove negligence to stand a chance of successfully suing a company.

These trends have given a boost to British Standard 5750, which lays down how a company should organise itself to maximise efficiency and quality. Introduced in 1979, BS5750 made slow progress in its early years but has now been approved for use with some 4,000 companies and new registrations are running at the rate of 1,500 a year.

In the early days quality systems were seen as the preserve of the larger company but, increasingly, smaller companies are starting to see the benefits. However, introducing a proper quality system can be painful and costly.

JR & E Russell, a Wednesbury-based joinery company with sales of just over £4m and a workforce of about 145 people, went through a very difficult six months after obtaining BS5750 approval in August 1986. The workforce became so thorough in checking quality that production fell sharply.

The company, the first joinery concern to win BS5750 approval, plunged into the red in 1986 though as the workforce became familiar with the new quality system it recovered and is once again profitable.

BS5750, and its international counterpart, ISO9000, make no reference to particular products or services. They apply only to the way a company manages its business activities. They set standards for every area of activity, from purchasing to despatch, from design control to training schemes.

The aim is to replace quality inspection at the end of the production line with a system of quality assurance through every stage of production. The most difficult and expensive stage to remedy a fault is when the product is almost ready for shipment or, even worse, when it has been delivered to the customer. It is far better to prevent faults occurring in the first place, the theory goes.

A key element in quality assurance is the quality manual. This need not be a thick volume but it should lay down who is responsible for doing each job and when, where and how the work is to be done.

A system for correcting faults is crucial to improving quality. It should not only remedy the immediate defect but also lay down what needs to be done to prevent it recurring. This can range from reviewing purchasing methods if defective raw materials are being bought to changing the way instruments are calibrated if they are not achieving the required standards of accuracy.

Quality systems, once seen as the preserve of larger companies, are being used by smaller companies as they see the benefits.

For JD Krouse, an Oxfordshire engineering company with sales of £1.25m and a workforce of just under 40, quality assurance has meant the introduction of strict procedures for handling incoming orders. The company compares the order with the job for which it quoted and checks that the issue numbers of drawings tally. These simple if time-consuming procedures ensure that the customer has not re-designed the part without telling Krouse – a process which could double the amount of work involved and lead to the customer refusing to pay.

Krouse has also numbered and catalogued all its tools and production aids. Previously, it was not uncommon for hours to be wasted while a worker hunted for a drill jig or a turning fixture which had been stored away under a workbench.

Gaining BS5750 approval can be a lengthy and exhausting process for a company, particularly a small one which has no experience of setting down formal control systems. Krouse spent 18 months preparing itself, and according to Mr John Krouse, managing director, this put considerable strain on the management and supervisors.

Krouse's managers had budgeted £33,500 to obtain BS5750 approval, including £28,000 worth of management and other labour costs. The final cost, after taking into account a 5 per cent contingency allowance and inflation, was just under £36,500.

Once a company has gained approval it is regularly inspected to ensure that it maintains standards. HTEC, a Southampton-based manufacturer of computer and telecommunications equipment with 125 employees and sales of £8.6m, says the inspectors come for a day and pick out one aspect of the business for close scrutiny.

Companies which let quality slip are given a second chance to tighten up controls. But if they fail to act on the inspectors' criticisms they may be delisted, a fate which befalls five or six companies a year.

Is all the pain worth it? Getting companies to pinpoint the precise benefits of quality assurance is not easy because often market conditions have changed or other factors are no longer comparable.

For Russell, gaining BS approval helped win orders and new customers and allowed the company to diversify into the manufacture of hotel bedroom furniture, according to Mr Gordon Bates, managing director.

HTEC also points to winning orders it would otherwise not have gained, including one from a French customer. So pleased was HTEC with the results that it has extended quality approval from its computer products to its telecommunications products.

For its part, Krouse is finding that many of its customers, including a number of large companies, are taking an interest in the idea of quality assurance. As far as it knows though no other joinery company has obtained BS5750 approval. Attitudes to quality are changing but there is still a long way to go.

Charles Batchelor

Case Study: Cascade Biochem

Trying to find the right staff

DEREK CLISSOLD, 44-year-old founder of Cascade Biochem, faces a problem common to many entrepreneurs in young high-technology businesses.

His knowledge of his product makes it essential for him to spend much of his time at his laboratory bench. At the same time, the demands of his rapidly growing business require him to get out and meet customers, to follow up enquiries and to produce a catalogue of his company's products.

"I don't think that two years down the road I should still be in there in a white coat putting things into vials," he says. But the only way for him to get away from the laboratory bench is to recruit more staff.

Finding people who understand what he is doing is difficult, however. It is also expensive.

"I really need one other good person," he says. "I know the people but they would want £20,000 to £25,000 a year." An alternative way of rewarding and motivating his staff is to offer them shares so his main partner is to become a shareholder with a 10 per cent stake in the company in July.

Working from two laboratories at Reading University, Mr Clissold has produced more than 100 different products. Cascade specialises in making mediators – chemicals which are implicated in causing inflammatory and allergic illnesses such as arthritis, asthma and rheumatism.

Pharmaceutical companies use Cascade's mediators as target practice for the drugs they are developing to combat or alleviate these conditions.

Cascade achieved a pre-tax profit of £37,000 on turnover of £86,000 in its first full year to December, 1988, and currently employs four people including Mr Clissold's wife, who does the administration,

at Cascade.

Mr Clissold spent 18 years working for large American pharmaceutical companies before deciding to strike out on his own. He was head of the British process research and development team for Eli Lilly, a US group, when he started working on the mediators he now produces.

He came to Reading University to do post-doctoral studies though with the idea in his mind that he would like to start his own business.

At about the time that he was setting up his business, Mr Clissold followed a part-time Firmstart small business training course, spread over six months at London Business School. This course gave Mr Clissold and his 15 fellow students a grounding in subjects such as marketing, finance and personnel issues.

Mr Clissold initially named his company Chiral Organics, a term which meant something to chemists like himself – but very little to the bio-chemists who, it turned out, were his main customers. So he changed the name to Cascade Biochem – a reference to the cascade of effects which lead to a particular disease – and found readier market acceptance.

"I wouldn't recommend changing your company's name," he comments. "You have to notify your customers, your suppliers and you have to change your bank account."

Cascade ships a good percentage of its production overseas, but it is now starting to concentrate on the US market. Mr Clissold has appointed Oxford Biomedical Research, a US group, as a distributor for the US market. The two sides have yet to meet, though they have been in contact by telephone and fax. Mr Clissold believes there is great potential in the US for his products.

Derek Clissold: facing a common problem

premises at Reading University. The part of the campus where he is based has been sold to a Japanese university and Cascade may have to move.

This would mean the company no longer had access to the university library, which allows Mr Clissold to keep up to date on the latest developments in his field. Nor would he have the convenience

"I have the horrors about having to work in my garage again," says Mr Clissold. He is looking, however, at the possibility of moving to another university. Unfortunately, the problem of finding new premises represents yet another distraction from the task of expanding the business.

"I just don't have time to grapple with all these things,"

William Dawkins reports on changing views on small businesses in the EC

A fresh sense of urgency in Europe

THE small business cause in Europe has finally completed its long march towards becoming a fully fledged priority for the European Community authorities.

Earlier this year, the European Commission signalled the importance it now gives to small and medium enterprises (SMEs) by turning the task force that used to fight their case in Brussels into a full directorate general.

The new organisation, known as DG23, has also taken responsibility for the clearly related retail trade and tourism sectors, formerly handled by other Commission departments.

The change is not just cosmetic. It gives those in charge of SMEs in Brussels useful political clout in the crucial run-up to the creation of a single market, with all the rewards and challenges which 1992 holds for small business.

Importantly, it makes them less dependent on the goodwill of other Commission departments. Indeed, the Commission is still alive to the perennial debate over the correct balance between special assistance, via an SME industrial policy, or simply forging on with deregulation to improve the environment for risk-taking.

It is too early to say how Mr Antonio Cardoso e Cunha, the new Commissioner for SMEs, will stamp his centre-right political opinions onto small business policy. However, he has made no bones about his eagerness for deregulation, a theme clearly supported by Mr Alan Mayhew, the former head of the SME task force, now in charge of DG23 and its enlarged staff of 75.

EC small business policy has developed in two main directions since late 1986, when European Governments agreed for the first time on a formal policy for the sector. They are to improve the regulatory environment on the one hand and to provide the kind of SME assistance – mainly advice and specialist finance – that the market is unable to supply.

The task force's first step on the business environment front was to scrutinise the EC authorities' own rules and procedures to minimise needless red tape, a practice carried on for years in the US and embraced enthusiastically by the Thatcher Government in the UK.

For the past four years, every piece of Commission legislation has had to carry a note stating its impact on business and cleared by DG23.

"It is of more value than people outside think. This persuades people who write regulations to write fewer – and to write them more efficiently," says Mr Mayhew. Meanwhile, DG23 does not win all its internal battles against red tape, but it is spreading its influence.

The Prince of Wales visiting local development projects in Moss Side, Manchester, where he also met executives of enterprise agencies and Business in the Community.

The Commission has been busy issuing positively deregulatory proposals, as well as hacking away at its own undergrowth of red tape. It is proud of its proposal to simplify the application of EC accounting rules for SMEs, now awaiting member states' approval. Others include a plan to allow one-person enterprises to assume limited liability, a privilege currently denied to the self-employed in Britain, Spain, Greece, Italy and Ireland. This is also awaiting EC Governments' blessing.

Brussels has meanwhile issued a recommendation that individual Governments should emulate its own anti-red tape procedures.

"Burdens on business often arise from national implementing legislation, rather than EC directives themselves," says a *Commission report on SME policy.*

EC recommendations have no legal force, but this is offered as ammunition for national politicians keen to *promote deregulation.*

Another proposal due to emerge from DG23 soon would encourage public purchasing authorities to make it easier for small businesses to bid for contracts.

Existing EC measures, in varying stages of agreement, already help by obliging purchasing bodies to open contracts to free competition. The new proposals would add to that by encouraging public authorities to divide contracts into small lots where possible.

The SME team is also participating in a draft directive – yet to be tabled by the Commission – to simplify and harmonise rules for calculating taxable profits, which will include streamlined tax provisions for SMEs.

The other mainstream of EC small business policy, the provision of services, consists chiefly of advice offered through various international networks, and the provision of finance.

Some of the EC's collaborative research programmes make a point of attracting small business participants. The Brite industrial research and Esprit information technology schemes both claim that 20 per cent of their participants are small businesses. However, critics point out that bulk of the cash in Esprit, the *biggest EC-backed research* project, still goes to the elite of Europe's top electronics companies.

The centre-piece of the EC's small business advisory services is the two-year-old system of Euro Info Centres – or *Euroguichets.* Implanted in local organisations such as chambers of commerce or enterprise agencies, they use EC databases to provide information about any Community issue of interest to small businesses.

The 40 centres in the project's pilot phase, which has just ended, also swap information about each other's countries. A Birmingham-based business, for example, can tap into its local Euro Info Centre to find out whether its exports would comply with Spanish standards.

The project, with a Ecu10m budget this year, is about to be expanded to 200 centres across Europe. They are expected to become financially self-supporting after three years, funded from their own charges and private sector help.

"We are quite prepared to help existing organisations get started, but we want to stay out of the subsidies game. We want to avoid further distortions of competition between these organisations," says Mr Mayhew.

A separate networking scheme, called BC-Net in Euro-jargon, opened last October as a kind of computer 'dating service.' Co-ordinated from DG23's headquarters in Brussels, it offers a confidential database of potential sub-contracting opportunities, joint ventures, or takeover candidates in different EC countries.

The 6,000 to 7,000 company profiles in the system are made available to 400 professional consultants across Europe, screened by DG23. They use the information to advise small business clients on possible cross border link-ups.

The Commission is currently considering expanding the system to the US, Japan and the six members of the European Free Trade Association. They have asked to join and Mr Mayhew feels this might greatly *benefit EC small businesses'* ability to seek international links beyond the Community.

A related 'marriage guidance service' is the so-called Europartnership scheme. This provides *conferences to* bring contractors and investors to meet potential business partners, identified through BC-Net, in less economically developed regions.

The first, in Dublin last year, produced results for 60 per cent of the companies involved. The next one takes place June 22-23 in Torremolinos, in the southern Spanish region of Andalucia, where 220 local businesses and up to 150 from the rest of Europe are expected to attend.

Brussels also provides help for the establishment of small business advisory agencies in regions struggling to recover from the decline of traditional industries like steel and coal. The 24 Commission-backed Business and Innovation Centres (BICs) provide start-up premises, with on the spot training and financial advice.

Here, Brussels tries to confine itself to helping to bring together local organisations to form a BIC, rather than providing a long term operating subsidy, in line with its hands-off policy towards Euroguichets. In practice, it has proved hard to draw the line.

Moving away from advisory services, the Commission also has a battery of financial assistance schemes at its disposal. By far the largest is the 10-year-old New Community Instrument (NCI), where the EC uses its triple-A credit rating to borrow in world markets on the finest terms and on-lend cheaply to small companies.

At present, NCI lending is distributed in tranches, managed by the European Investment Bank in Luxembourg, which uses national banks to channel the funds to the ultimate small business clients. EC Governments are considering plans to turn the NCI into a permanent ECu6bn revolving fund.

At a much more detailed level, the EC's Venture Consort Scheme and Eurotech capital schemes offers equity backing for technology co-operation between small firms across borders, usually channeled through financial intermediaries in individual countries.

The Commission's latest initiative in this area is an experimental Ecu2m per year seed capital fund, launched last October, to provide interest-free loans for up to 24 nationally organised funds wishing to back very early stage start-ups.

The European Venture Capital Association estimates that less than 1 per cent of the Ecu2.9bn invested in risk capital in the EC in 1987 went into seed projects, a sign of the high costs and uncertainty involved.

Italy's small companies

Lynchpin of the economy

THE SUCCESS of Italian small and medium-sized businesses over the last two decades has surprised most foreigners and many Italians. Notwithstanding *the fundamental* restructuring which has restored most large Italian private companies to rude financial health, it is this sector which is the lynchpin of the economy in terms of *employment and a* crucial pillar of the nation's export performance.

There are several reasons why nearly 60 per cent of those in employment in Italy work in companies with pay rolls of less than 100, and why such companies account for 26 per cent of manufacturing exports.

One is that the small, private *family company* is an ideal expression of that side of Italian culture which is entrepreneurial, independent and loyal to both birthplace and family.

With their miniscule lines of communication between the single padrone, members of his family and the directly employed workforce, small businesses have proved immensely flexible in solving problems associated with changing markets, technology and product development.

Many activities are grouped in specific locations – light engineering in Milan, textiles in Biella and shoe manufacturing north of Bari – where they operate in a sort of collaborative competition, often sharing information on and experience of markets and processes. Moreover as suppliers of components and services to major manufacturers, Italian small businesses are under constant pressure to raise quality and productivity and to increase the pace of innovation.

Nevertheless, leaders of small and medium businesses in Italy think there is nothing to be complacent about, particularly in view of the sharper competition they expect to encounter in the single European market after 1992.

They acknowledge that their sector is not properly addressing crucial requirements such as management organisation and product development, but they also complain that successive governments have failed to supply both the direct support which is available in other countries and indirect *support* in the shape of internationally competitive interest rates, bureaucratic procedures and public services.

"Old problems remain almost unchanged and have come to represent an increasingly onerous burden with which it will be difficult to compete in the single European market," was how Mr Franco Muscara, one of the leaders of Italy's small business sector, summed up the situation at a recent conference organised by Confindustria, the main organisation representing Italian industry.

In a recent report from Milan's Bocconi University, Prof. Giuliano Mussati argues that the single market offers, in macroeconomic terms, more advantages to large-scale companies, and that, as a result, Italy needs to fill the existing void in its battery of public policies by developing specific supports for smaller firms.

He argues that small businesses, particularly those with fewer than 200 employees, while still performing well, are in fact falling behind bigger companies in terms of value added as a proportion of both gross profits and investments.

This is partly a reflection of the productive and technological restructuring carried out by the large companies, but also a sign that small businesses are struggling to adapt to the technological and commercial requirements of changing markets.

Recent surveys suggest that small companies with less than 100 employees are innovating at well below the

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Trends in the small business sector reflect the general economic cycle, reports **Roderick Oram**

Signs of a slowdown in the US

AFTER RAPID growth this decade during the longest ever post-war economic expansion, the US small business sector is beginning to feel the first pains of a slowdown.

The number of new businesses incorporated last year dipped slightly from a year earlier. Small business profits rose to a record high last year – but they grew more slowly than wages and earnings for the first time since the boom began in 1982.

To a large extent, these trends reflect the general economic cycle. As a recent report from the Small Business Administration, the federal government agency responsible for the sector, said such a slowdown is a leading economic indicator pointing to a recession in the next three to six months. Although forecasters are split on when the US will experience its next recession, the economy is already slowing down to a pace and pattern less favourable to small business.

Tightness of labour markets is the most obvious problem in some parts of the country. Many small businesses, always at a disadvantage compared with big employers when it comes to hiring people or passing on higher costs to customers, are finding it hard to get the staff they need.

"The general economic outlook has been declining for some time and is now more negative than any time since the 1980s," said Mr William Dennis, senior research fellow in economics at the National Federation of Independent Business.

Yet despite the clouds gathering on the horizon, entrepreneurs "are generally more optimistic about their own situation," he added.

This may reflect the fact that small business owners now enjoy fuller, more sophisticated and more accessible help for their companies than ever before thanks to significant structural developments in the sector during the 1980s.

Thus, for example, most sizeable communities in the US now boast a wide range of services, such as liaison groups, to introduce entrepreneurs to venture capitalists, consultants (often in the small business practices of major accounting firms) and new business incubators. The last facility, often run by universities, offer entrepreneurs premises and help to start up their own companies.

Typical of this trend is the Baltimore-Washington-Richmond, Virginia, corridor which has experienced explosive growth in small businesses.

"Since the early 1980s we have developed enough of these organisations to have *critical mass and self-feeding* development of new businesses," said Dr Mark Spikell, co-founder of the enterprise centre at George Mason University in the Virginia suburbs of Washington.

"There is enough interest and expertise to help in the founding of new businesses. This is happening in more places in the US than ever before and it means we are getting young companies off to a much stronger start."

These new elements of infrastructure are likely to be lasting testaments to the boom which saw the number of non-farm small businesses in the US climb 46 per cent to 19m in 1988 from 13m in 1982.

The number of businesses incorporated last year dipped, however, to 684,109 from 685,572. The national figure masked a diverse regional pattern with the mid-west (states such as Illinois, Minnesota, Michigan and Ohio) enjoying a 5.4 per cent growth.

In contrast, the south central region experienced an 8.6 per cent decline, mostly because of acute difficulties in the energy and real estate sectors in Louisiana and Texas.

"The regional differences are extraordinary," said Mr Dennis of the NFIB. "The east coast is going crazy because employers can't find the people to work."

The problem is most acute in New England where labour shortages are causing a slowdown in the small business sector – "You simply cannot find the people . . . there are just no more bodies left."

Mr Thomas Gray, chief economist of the SBA, has direct personal experience of the trend from his home town of Portsmouth, New Hampshire. Its monthly unemployment rate has often been the lowest in the country over the past two years at around 1 to 1½ per cent.

"My friends up there say there are two problems with employees – you've got to catch them and keep them," he says. Although he has seen a big increase around the country in, for example, retail sales forces, he thinks some employers are hoarding labour rather than hiring to meet current demand.

Tight labour markets hurt small businesses in several ways, notably rising wages and "a poorer quality of new employees which affects productivity," Mr Gray says.

"My main message to small businesses is that they must focus on anything they can to increase productivity."

The realisation appears to be sinking in with capital spending by the sector running at a brisk pace as businesses substitute to some extent machinery and equipment for the workers they cannot get.

The trend might be one explanation for the heavy demand from small businesses for loan guarantees from the SBA. The guarantees are usually for longer term loans for capital expenditures which banks are less willing to make without some protection.

"It could be that small businesses are expanding and looking to the longer term," Mr Gray believes, despite the economic slowdown.

Overall, he is forecasting a difficult year for the sector. Wage escalation, for example, and other cost pressures could push down profits for the first time since the boom began – "It will be a more negative year than any other in the past six."

Another threat to profitability are the wide ranging issues of welfare and other employment benefits. There is a sharp debate between small businesses and lobby groups over what employers should be required by law to provide.

The issues are coming into sharper focus as an increasing proportion of new employees are drawn from mothers, part-timers, immigrants and older people who are demanding more benefits such as health care, parental leave, child-care and flexible working hours.

On the most fundamental level, the biggest fight is over the minimum wage mandated by federal law. The current level of \$3.35 an hour had been unchanged during the eight years of Reagan Administrations even though consumer prices had risen more than 40 per cent.

Congress wants to raise it in stages to around \$4.55 over the next three years, but President George Bush has said he will veto any increase to more than \$4.25 an hour.

The Bush stand fits the Administration's policy of focussing more on macro economic policies conducive to business generally, rather than launching into elaborate new programmes.

Even if the President does prevail, small businesses will face a host of other financial pressure which mark the beginning of the end of a long period of heady expansion for the sector.

JAPAN

A striking turnaround

JAPAN'S relatively obscure small businesses have startled most analysts by making a striking turnaround in the face of the sharp appreciation of the yen and are now riding high on a wave of economic prosperity.

Defying dire predictions, the country's small and medium-sized companies, many of which were export-dependent and therefore severely hurt by a much higher yen, successfully restructured or diversified into new areas.

The northern town of Tsubame, for example, the home of countless small and medium-sized companies that specialized in manufacturing cutlery for export, witnessed a town-wide diversification move in the wake of the yen's rise that transformed an entire regional industry.

When the higher yen began to hurt, the small businesses in Tsubame, rather than cling stubbornly to their old trade and give in to the inevitable closures and bankruptcies, switched over, one by one, to making interior fittings that were more likely to find demand on the domestic market.

Today, the town's small companies, from family-run concerns to larger, more sophisticated operations, are doing a thriving business supported by the domestic construction boom of the past few years.

"In terms of the number of businesses and the number of people they employ, small and medium-sized companies are the foundation of Japan's economy," says an official at the Tokyo Chamber of Commerce.

Over 99 per cent of all businesses in Japan are small and medium-sized enterprises. They make up 99.8 per cent of the retailing sector and a substantial proportion of the construction industry, of wholesalers and of manufacturers.

The cutlery makers of Tsubame are only a very small part of the country's small business sector, but their recovery after the yen's surge exemplifies the remarkable ability to adapt quickly to changing trends that is the major source of strength for small businesses in Japan.

In many other countries, a potentially devastating change in the environment such as a major revaluation of the country's currency, would lead to some kind of political action, says Mr Norihiro Yokoyama, an official in the Small and Medium Enterprise Agency of the Ministry of International Trade and Industry, (Miti).

"In Japan it leads instead to individual initiatives to restructure," he says.

Small companies, which lack the financial and human resources of the big and powerful large corporations, have found such initiative and flexibility absolutely crucial to their survival even in times of relative economic stability.

In this respect, they are well trained to be innovative and adaptable by an intensely competitive domestic market and highly demanding corporate clients with which they generally have very close ties.

"Japanese subcontractors try to do as much as they can to meet the requests of their corporate clients, even if it is not in the contract," says Mr Yokoyama of Miti.

Those demands range from price cuts to reductions in orders when times are bad, to product changes that could require substantial technological improvements.

In return, the subcontractor is assured of a fairly reliable flow of orders, or if a cut becomes necessary during a slump, of more orders when business improves.

It is a "live and let live" situation that forces them to keep making improvements since even in a relationship of mutual dependence, the small company always faces the prospect of being cut off.

The smaller, family-run concerns operate on even more flexible terms. When times are slow and it becomes impossible to keep the business going, these companies often close shop for a while and members take up work elsewhere until the outlook improves and they can open their business again.

It is this environment, Mr Yokoyama says, that has raised the technological level of Japan's small businesses. Under these demanding circumstances, small businesses must keep adapting and improving their technology if they are to survive. Government policy is also geared towards encouraging adaptability and self-help among small businesses.

Japanese legislation aimed at supporting small and medium-sized businesses is based on the premise that while small concerns with less than adequate financial stability need a certain amount of protection from environmental changes that could easily threaten their existence, the Government can only help them in their own efforts to help themselves.

So, while there are several measures aimed at financing businesses or helping them to find some form of financing for themselves, there is very little in terms of subsidy given to small businesses.

Financial assistance is mainly provided in the form of low interest loans to support companies' efforts to diversify or restructure into new businesses, to assist in expanding their business abroad and in acquiring new technology or developing new products.

Aid is provided to the various industry associations to support efforts to acquire new skills or develop new products.

But the Government does not attempt to rescue a troubled region or industry that cannot face up to changes to some extent on their own.

The steel towns in the north and the small businesses making Christmas tree decorations which could not respond quickly enough to their changing environment, thus no longer exist.

The most that the Government can and will do is to try and minimise the damaging effect of drastic economic changes by enacting legislature aimed at giving small businesses the assistance they need to tide over the transitional phase.

More than 99 per cent of Japan's retailing sector is made up of small and medium-sized enterprises. Above: the Nakamise-Dori Avenue shopping street in Asakusa, a district of Tokyo.

An emergency law was established, for example, at the time of the yen's sharp rise to give financial assistance to businesses trying to reduce their dependency on exports.

The introduction this April of a new 3 per cent consumption tax, also prompted emergency measures to help small businesses make the necessary adjustments and to ensure that they would be able to pass on the tax to customers rather than pay for it themselves.

Another group of legislation, which has become controversial lately, is intended to make sure small businesses are able to exist even in the face of competition from larger companies.

One such law, the Large Store Law, is aimed at enabling small stores to co-exist side by side with any larger store opening up in the neighbourhood.

Under the Large Store Law, any store over a certain capacity that applies to open near smaller stores must, in effect, win the approval of its neighbourhood shopping street association. It is not aimed at keeping large stores from opening or at preventing change, says Mr Yokoyama of Miti – "the point is to let the forces of change work smoothly."

However, the US and other foreign governments see it as a barrier to imports because it is more difficult to get imports into small stores than large ones.

The sharp rise in starting-up costs for small business in Japan, due to the need for increasingly sophisticated communications and other high-tech equipment and the recent rise in land prices, mean that it is increasingly difficult to start a new business.

This is changing an important characteristic of small businesses, which is that they may be easy to start but easily fail. Nowadays, while the number of small businesses that go bankrupt has not changed so much, the number of new small businesses that are set up has fallen.

A lack of successors in small family-owned companies is another serious problem, according to the Tokyo Chamber of Commerce. The high price of land often makes it impossible for the next generation to take over the business due to high inheritance taxes in Japan.

Michiyo Nakamoto in Tokyo

HONG KONG

Keeping it in the family

HONG KONG'S brand of laissez-faire capitalism has provided a perfect environment for the small businessman, allowing the territory's entrepreneurial spirit to flourish against the backdrop of a good legal framework, a minimum of bureaucratic interference, and a low tax regime.

To help the thousands of businesses which spring up each year without any special schemes to encourage them the Government has provided training, market research and testing services to industry rather than the financial incentives and grants seen in some countries.

The individual with his small business forms the backbone of the Hong kong economy in spite of the territory's ascendency as one of the wealthiest areas in Asia.

A survey of the manufacturing sector carried out in the third quarter of 1988 showed that 232,000 people worked in establishments of less than 20 employees out of a total workforce of 844,000. More than half worked in companies with less than 200 people.

In the wholesale, retail and import-export trades, 294,000 out of a total of 517,000 employees worked in companies with less than nine employees.

"You don't have to do anything to encourage it," commented Mr. Harry Garlick, assistant director for local affairs at the Hong Kong chamber of commerce, which has members ranging from the giant trading hongs to hundreds of smaller companies.

"Inside every Hong Kong youngster is an entrepreneur bursting to get out," said Mr Simon Tam, lecturer at Hong Kong University's department of management studies.

"Hong Kong has a reverse of the Japanese model, where companies tend to get bigger and bigger, with a disintegrative tendency in evidence. In Hong Kong we don't have a separation of ownership from management," he pointed out.

"The Chinese tend to see the company as a family property. Within a typical Chinese enterprise decision making power tends to be monopolised by the head of the family, and hired managers thus tend to want to break away from their companies and set up their own, often taking a number of clients with them.

"As a result many apparently new small businesses have been operating for some time, with people running their own businesses on the side while serving as an employee. Networks are already in place, and the initial capital is borrowed from friends and relatives," he said.

Mr Tam contrasted this with the US, "where you first have an idea, make a plan and go to the bank for backing. The banks in Hong Kong come in at a later stage when a new business has established a track record, often taking property as collateral."

Mr Donald Taylor, deputy executive director of the Hong Kong productivity council, argued that this general absence of available formation risk capital does hinder growth, and said banks should do more to back entrepreneurs in the early stages.

The productivity council is a government offshoot with an annual budget of about HK$160m, helping the development of new processes and technologies in industry with training programmes, testing systems, and making information systems available to the right kind of businesses.

The council is a sub-contractor on a commercial basis for the design and manufacture of sophisticated tools, helping to bring new technologies such as surface treatments and specialist coatings to the territory. It also features training in computer-aided manufacturing and design, both of which are playing an increasingly important role locally.

"Most of our work is focussed on industry related businesses," said Mr Taylor. "Although services to industry now make up about 40 per cent of total clients there is not a specific goal of hi tech, but rather a better use of technology in order to move into higher value added sectors.

"Hong Kong doesn't necessarily need hi tech," said Mr Taylor. "We support the growth of process-based industries." The work of the productivity council is complemented by the vocational training council, which operates a management development centre seeking to develop skills among managers and make them ready for the challenges that growth will bring.

Certainly growth is in evidence in most sectors given Hong Kong's boom conditions, and there are countless opportunities for those with a good idea to start up businesses.

Mr Garlick pointed out that there is a high failure rate, with almost all liquidations on a voluntary basis.

"One of the great strengths of the Hong Kong entrepreneur is not only that he knows a good thing when he sees it, but also that he knows a bad thing when he sees it," Mr Garlick argued.

He said this willingness to get out of one area and try something different is one of the great lessons of the Hong Kong success story. In the small retail sector the constant renovation of shops is testimony to the constant changes of strategy by owners, with video rental shops, laser disc stores and four hour photo processing outlets some of the favourites.

In the manufacturing sector the move into China to take advantage of lower labour rates has opened up a range of opportunities for Hong Kong businessmen. Among the younger generation there is a noticeable tendency to become salaried employees, particularly as many return from abroad with qualifications, but no one doubts that the next generation of successful businessmen are ready to maintain the Hong Kong success story.

"Businessman is still a term of respect in Hong Kong," Mr Garlick said, something which cannot always be said of many other societies.

Michael Marray

Italy's small business sector

Continued from page 6

national average while the sector as a whole has been much less successful than large companies in simultaneously modernising production processes, products and company organisations.

In Prof. Mussati's view, the exporting advantage of flexibility which small businesses have been deriving from not developing commercial structures abroad could become a handicap in future global markets where success will require more solid organisation.

Their other great operating and development problem is the cost of finance and the difficulty of obtaining cheap, medium term investment money.

The present Italian Minister for Industry, Mr Adolfo Battaglia, has been struggling for two years to put together a framework law which would strengthen the small businesses' response to the problems of innovation and financing.

After taking months to clear the normal bureaucratic hurdles, final approval by the cabinet has now been delayed by the political crisis which broke on May 19 with the resignation of Mr Ciriaco De Mita's government.

Mr Battaglia's proposals include: tax incentives to encourage the start up of new companies and their initial research and development; tax credits to encourage businesses to step up their R&D expenditures; credits for the acquisition of advanced machinery, information systems and scientific equipment; incentives for the creation of consortia both for the acquisition of equipment and raw materials and also for the setting up of shared distribution systems and joint participation in bidding for contracts.

The plan also seeks to encourage the creation of closed investment funds as well as venture capital funds and participatory loans.

John Wyles in Rome

Ian Hamilton Fazey on changes in back-up for small and growing businesses in the UK

Where to go for help

THE most important change to the sources of help for small and growing businesses in the UK is now on the way – the Government expects the Training and Enterprise Councils (TECs) to play a central role in entrepreneurial development and link closely with the national array of 300 enterprise agencies.

At the same time, the Government's Small Firms Service (SFS), will become less active in the help it gives. It means that the trend towards making the enterprise agencies the main starting point and source of help for small businesses is likely to move to its logical conclusion – the agencies will become closer to one-stop shops for help and advice.

Mr John Cope, the Employment Minister, told a conference of enterprise agency chairmen in April that the SFS will stop offering free counselling and subsidised consultancy for small businesses as the TECs are set up under the control of industry and commerce over the next three years.

The SFS has long operated and promoted two linked types of service for small business, one offering well-packaged information and the other using consultants to visit businesses and advise them on solving problems and how to grow. The consultants are often highly experienced retired managers.

Mr Cope says the information side of the SFS will continue and will be based in regional offices but that he wants the TECs to be responsible for making sure that counselling support for small businesses in their areas will be sufficient.

Each TEC will decide whether to hire individual counsellors and to choose where to get them from. However, the Government expects the local enterprise agency, not the SFS, to be the first thing to spring to people's minds.

Mr Cope emphasises this: "I hope all of the TECs will have a relationship with the local enterprise agencies and will contract with them for provision of counselling in their areas for their areas. This provision will be one criteria Government will look for when awarding a contract for a TEC."

Mr Michael Winwood (left), director of the Bristol-based New Work Trust Enterprise Agency, was one of the speakers who joined the Small Firms Minister, Mr John Cope, (right), at the relaunch of the Government's Loans Guarantee Scheme.

TECs were launched on the private sector by the Prime Minister in February. Approximately 80 are expected in England and Wales with another 20 in Scotland. Each will be led by the private sector and will be given funds for industrial and enterprise training in areas containing a total workforce of about 250,000.

The TECs will take over the running of the Youth Training Scheme, Employment Training, the Enterprise Allowance Scheme and are expected to develop small business training services. The Government has asked industry and interested parties to form groups and bid for TEC contracts. Bids are already going to the Department of Employment.

The chairmen's conference, sponsored by Business in the Community (BiC) and Shell, was called to debate the future of Britain's network of more than 300 enterprise agencies, which over the last 10 years have increasingly been a prime and growing source of advice for small businesses.

Mr Cope says that the agencies, which are all partnerships between public and private sectors, can stay independent if they wish, but the consensus of their chairmen seems to be that it will be strategically critical for them to become part of the TECs.

There is little doubt that this is what the Government wants. The TECs are also expected to resolve a wide range of demarcation problems in the area of advisory services for small business, as well assisting rationalisation in the enterprise agency movement itself.

As Mr Cope admits: "There is a considerable amount of overlap of provision and confusion in the minds of the punters. The TEC concept builds on a lot of what is happening already. TECs may encourage enterprise agencies to merge or encourage them to adopt a wider coverage in some areas."

Will this affect small business in a noticeable way? One change may well be that while advice to small businesses has usually been free, the new regime may well see the agencies charging for their services. This in turn could change some attitudes among the agencies' sponsors.

Many local authorities have sponsored agencies on condition that all advice is free. As non-commercial, non-profit-making bodies they fill a public service role and small businesses owners are not deterred from calling in. Some local authority sponsors are therefore considering whether to continue to support the agencies if they become fee-charging.

Some private sector sponsors are also worried about how much the agencies should "go commercial," operating beyond nursery levels of care for small business that are unable initially to pay much for advice. A movement towards charged consultancy for the growing business, as will happen as the SFS role in this area is subsumed, is seen as a radical change.

The question is what will happen if agencies start undercutting their own sponsors in fields such as accountancy services and business consultancy or if other sponsors find that agency clients are becoming competitors.

BiC, however, is to launch a national advertising and telephone sales campaign to persuade many more medium-sized and smaller businesses to become agency sponsors.

The aim will be to raise the level of private sector sponsorship – which comes at present mainly from the largest 200 companies in the UK – from £35m a year to £50m. The extra money will offset the phasing-out of government support, which has helped the number of agencies expand from three to 300 in only 11 years.

To get more out of the agencies, networking might see an agency specialising in certain types of counselling – such as obtaining venture capital or in export marketing – and being fed with clients by its neighbours, each of which would offer different expertise.

The big sponsors certainly want more co-ordination, as has just been proved on Merseyside where an experiment called Liverpool Enterprise has just got off the ground. It will have a chief executive and small staff to co-ordinate the work of five different enterprise and training agencies in the city.

First-year funding of £60,000 will be met largely by IBM, the computer group, which is providing £20,000, and Barclays Bank, which is contributing £10,000. Lloyds Bank has offered £2,500 plus a secondee, and this level of private sector commitment has encouraged Merseyside's City Action Team to ask the Government for £27,500 from the urban programme.

Second-year sponsorship is already being committed, with a promise of £10,000 from United Biscuits, another leading national sponsor of the enterprise agency movement.

This would seem to suggest that although the role of the agencies is going to change and develop, they are going to become increasingly central in terms of small business advice.

The characteristic that all the agencies share is that they are part of the general network of professional services and advice which small businesses can tap into. Accountants, solicitors and bank managers all know them, as do local authority industrial development officers and civil servants.

Most are able to take the legwork and brainwork out of searching for where to go for the best advice, saving time and worry for small business people wondering whether they are on the right track.

However, the role of the agencies and, eventually, the TECs, will not impinge on the Government's enterprise initiative, a series of subsidised consultancy packages promoted by the Department of Trade and Industry. These are considered to be for medium-sized or larger type of small business which can afford to pay more for the specialised advice involved.

The DTI has set up a network of regional centres providing information about the enterprise initiative. These can be approached directly, though enterprise agencies will refer clients if appropriate, as they would to regional economic development agencies such as Lancashire Enterprises, Greater Manchester Economic Development, or the Northern Development Company (NDC).

Bodies such as the NDC have formed federations for particular industrial sectors to bring small business together with big business and promote more local buying of goods, components and services within the region.

For example, there is a federation for computer software and another for the offshore industry. At the same time, the NDC has set up a procurement office to help small businesses bid for government contracts.

Local authorities also remain an important source of information for small businesses, especially as regards premises and also over special grants and incentives they may offer locally to people moving into their area and creating jobs. Town hall industrial development offices are therefore always worth trying.

So are chambers of commerce, which apart from maintaining good information about their regions, are always on the lookout for members.

■ Useful telephone numbers include:

☐ *The nearest enterprise agency can be found through Business in the Community, 01-253 3716. Any of the agencies should provide the easiest way in to the maze of information about available help.*

☐ *The Rural Development Commission can offer advice about operating in the country-side. Its headquarters are in Salisbury, 0722-336255.*

☐ *The Northern Development Company is based in Newcastle-upon-Tyne, 091-261 0026. So is Operation Livewire, the organisation which helps people under 25 into small business. It has a regional network based on counties. Headquarters is on 091-261 5554.*

☐ *Greater Manchester Economic Development is on 061-236 4412. Lancashire Enterprises: 0772-735821.*

Case study: Irene Davies

Irene Davies with her business partner, Albert Snoddy: winners of a London Docklands Enterprise Award.

A back yard success story

IRENE DAVIES became bored with her job and decided to start up in business on her own. In the space of five years her workforce has risen from one to 36 and she is forecasting turnover of more than £1.5m this year.

There is nothing unusual about that, except that the business she went into was metal fabrication and Spencer Construction and Engineering now claims to be the largest manufacturer of steel storage tanks and silos in south-east England.

Mrs Davies, 45, does not get involved in the manufacturing process, though her partner, Mr Albert Snoddy, is a skilled plater. Her husband, Vernon, a former docker, also works in the factory. Mrs Davies' contribution has been a deceptively relaxed management style which has brought success in an industry with few if any women managers.

After an early career which included a spell as a temporary shorthand typist for the Cuban embassy and as a buyer for the Cuban national airline, she joined Mr Snoddy and another partner in setting up a metals fabrication business. At its peak this company employed 60 people. But after 11 years Mrs Davies became bored and set up on her own with £300 of capital and one skilled worker. A year or so later, the other company went into liquidation and Mr Snoddy joined Spencer Construction.

Mrs Davies started in 1984 in her brother-in-law's back yard in Plaistow, east London. The company began making platforms and staircases for Newham council but moved on to making silos, pipelines, storage tanks and jetties for many of the large food processing companies in Docklands. Customers include Tate & Lyle, BOCM and Van den Berghs.

The company moved into a 1,000 sq ft factory and then on to larger premises until these were compulsorily purchased to make way for the roads that are being built to open up Docklands. It was at this point that Spencer Construction moved to its present site, one acre in Silvertown. The neat lawn in front of Mrs Davies's office is in stark contrast to the grubby factories and workshops which make up this part of London.

From turnover of £33,000 in the first year ended June 1985, sales rose to £1m in 1987/88, producing pre-tax profits of more than £100,000. This year's order book is full and turnover is expected to exceed £1.5m.

Spencer's expansion has been funded almost entirely from its own retained profits, though Mrs Davies borrowed £60,000 to help finance the purchase of the present factory site.

"We don't believe in borrowing – and we don't like having an overdraft," she says.

The main problem facing Spencer is the difficulty it has in recruiting and keeping skilled labour. The company currently employs one apprentice (another recently left) but it has been looking for another three or four apprentices for the past two years.

"We have them for two or three months and then they leave because they don't like the job or they can get more money somewhere else," says Mrs Davies.

An apprentice in his late teens will earn about £100 a week, though many of Spencer's older qualified workers earn £500 a week. Other smaller engineering firms in Silvertown are turning work away because they cannot find the labour, she says.

Mrs Davies says she has never had any management training, though her 11 years with the first engineering business gave her invaluable practical experience. She recently won the Docklands Enterprise Award, which carried the prize of a one-week management course at Ashridge Management College, a business school in Berkhamsted, Hertfordshire. So far, she says, she has been too busy to take a day off, let alone a week.

Now that Spencer is well established, Mrs Davies says she is looking round for something different to do. She has been considering expanding by buying an engineering design consultancy, or going into plant hire.

"We've got to do something which is a bit of a challenge," she says.

Charles Batchelor

FINANCIAL TIMES
COMPANIES & MARKETS
Monday June 5 1989

INSIDE

Silence is golden in the Next shop

The board of Next, the UK retailing group, has stirred up controversy by refusing to reveal to shareholders details of the golden handshake payments made to Mr George Davies (left), the former chairman, and his wife Liz. The case highlights the legal grey area surrounding the obligations of companies to make such information available. Robert Rice reports. Page 28

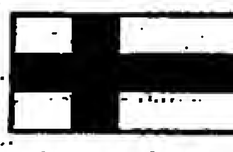
Teamwork tensions over pay

GTE, the telecommunications company, has just introduced a new payments system at one of its US factories which attempts to overcome what could develop into a sharp dilemma for many employers: the tension between more collaborative team working and performance-related pay. Charles Leadbeater examines the issue in the Business Column. Page 48

Trouble ahead

Shareholder discontent seems set to surface at the extraordinary general meeting of Chloride, the batteries group, on Friday. The meeting has been called to approve the sale of Chloride's motive power business to Compagnie Generale d'Electricite, for £55m ($87.5m). Nikki Tait reports. Page 28

From the Finland station



Finland. That was the only borrower's name on people's lips in the Euromarkets last week, following an innovative deal for the country launched by JP Morgan, which had rival syndicate managers reaching for their thinking caps. The novelty was that investors in previous Finland deals could choose to switch into the new issue. Andrew Freeman examines the market's reaction. Page 24

Return to health

Until early last year, Wipac, the UK motor parts and accessories company, was slowly dying – unable to adapt to modern market conditions in the sector. But then a management buy-in was completed. John Griffiths reports on developments since the change of control. Page 27

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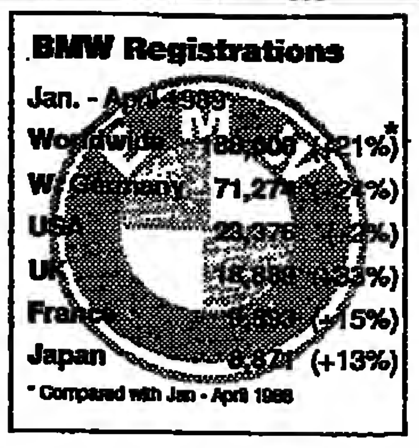
BMW's new 5 series model: helped to boost sales performance



BMW goes into overdrive in race for market share

Haig Simonian examines the company's latest results

WHAT CAN go wrong for BMW, the West German quality vehicle manufacturer, whose 1988 results last week spoke in almost the same superlatives as its advertising copy?

Executives at the Munich-based high-performance cars and motorcycles group have good reason to look smug. In the past year, production, sales and profits have accelerated faster than one of its 12-cylinder saloons. If growth continues at this pace, BMW may soon face the same performance constraints it imposes on its top model to stop them going too fast.

In Germany, BMW's sales rose by 21 per cent to 131,000 units last year, compared with a 4 per cent fall in the market as a whole. That gives it a 7.1 per cent market share, closer than ever to its arch-rival Mercedes, which managed 10.2 per cent.

The Bavarian group did as well in key European countries. UK sales rose by 14 per cent to just under 43,000, while they jumped 20 per cent to about 24,000 in France and 31 and 26 per cent in Italy and Spain respectively.

Even in Japan, where BMW's success has already turned into marketing legend, sales leapt by 28 per cent to almost 27,000 last year, continuing a BMW tradition of consecutive increases of about a third for the past four years.

Motorists have been even more enthusiastic to get behind the wheel of a BMW in the first four months of this year. Worldwide registrations jumped 21 per cent to 188,000, taking group turnover up to almost DM9bn ($4.6bn). Sales rose by 24 per cent in Germany, 33 per cent in the UK and 15 per cent in France. As a result, BMW sales should exceed 500,000 in 1989 against 484,121 in 1988 and 461,340 the previous year.

The boom rests on an extremely successful mixture of excellent cars, clever marketing and slick image advertising that appeals most strongly to the professional man.

Not only has volume increased, so has the average value per unit, with drivers either moving up the range or ordering more expensive extras.

According to Mr Eberhard von Kuenheim, BMW's chief executive, 1988 was undoubtedly "the year of the 5 series". Plaudits for the mid-sized sports saloon from the motoring press have been followed by rocketing sales.

About 155,000 5 series cars were sold in 1988. That was "already considerably more than the old 5 series in its best year", said Mr von Kuenheim.

Even BMW's veteran smaller 3 series – now more than seven years old – is soldiering on. Boosted by facelifts, clever marketing and the timely introduction of variants every two to three years, demand for the range has always recovered from occasional dips.

Translating impressive sales into record profits is another matter, especially given the tricky economics of the car business. But BMW appears to be doing it better than most.

Net earnings at the parent company remained static at DM375m last year, leading to an unchanged DM12.50 a share dividend. But BMW's true performance requires some interpretation, because full consolidated figures are never published.

Last week, the group gave an unexpected glimpse into its consolidated position. Net profits topped DM450m in 1988, while, pre-tax earnings were "somewhat over" DM1.2bn on sales of DM24.5bn.

Full comparative profits figures will stay under wraps until the company moves to full consolidated reporting with its 1989 results. But the signs are that BMW raced ahead in most markets last year, while having to brake sharply in the US.

Earnings at BMW's US holding company almost doubled to DM173m last year, but the rise was entirely attributable to booming sales in the UK and Japan, which are booked through the US operation.

BMW earned just DM7.1m in the US in 1988 – a sharp fall on 1987 – but the size is masked by the lack of comparative information.

Falling volume was the main culprit. BMW's US sales declined by 16 per cent to 73,400 units in 1988 as a result of the second year of extremely difficult market conditions.

But at least one factor handicapping BMW – the switch to the new 5 series model, only launched in the US last October – has been removed. Thus sales have responded quickly, rising by 2 per cent in the first four months of this year and putting BMW alongside Volvo as the only European luxury car makers to have increased its US penetration this year. By contrast, sales at Jaguar fell by 5.7 per cent, Mercedes by 15.9 per cent and Porsche by 56.3 per cent.

The effect of currency factors is harder to judge. Like other European exporters, BMW was hit by last year's fall in the dollar, which increased prices and reduced profits in D-Mark terms.

Mr von Kuenheim stressed that the company was trading profitably in the US. But how well its US profits recover will depend as much on its foreign exchange hedging skills as on demand.

Could anything force BMW off the road? Production bottlenecks may grow if demand continues to surge. However, Mr von Kuenheim forecast that the present growth rates would not be maintained through the year, and BMW was planning for a period of less frenetic growth.

And the Japanese? BMW is not underplaying the challenge from the new luxury models by Toyota, Nissan and Honda, especially in the US. But the atmosphere at its Munich headquarters seems curiously relaxed. The Bavarians clearly think they can withstand the challenge rather better than their counterparts at the smaller Porsche. It will probably be up to US motorists to prove whether they are right.

The real test of President Bush's ability to lead

By Anthony Harris
in Washington

THE international bankers gathering in Madrid this week ought to feel some sympathy with US Congressmen. Join the Scapegoats' Club, either might say to either. While neither group is blameless, both have some right to feel aggrieved; yet both now have the chance to move on to better things.

It is probably hardest for the bankers. They are currently blamed by everyone for the fact that the apparently generous and enlightened Brady initiative is so far producing no results at all. Mr Nicholas Brady has complained a number of times that they are dragging their feet on debt reduction, echoing the sentiments of his friend and colleague Mr James Baker, who is aggrieved that the bankers did not provide enough new money to make his own solvency-through-growth plan work.

Last week Mr Michel Camdessus attacked them in Paris, warning them that their delays might start "the cancer of arrears" in international debt.

Mr Camdessus can in one sense afford to take a lofty tone: the IMF and the World Bank have exceeded all expectations in the speed with which they have planned their own policies under the Brady scheme – though it is only this week in Madrid that the bankers hope to learn what really matters to them, the numbers.

However, his tone suggested that the Brady approach might prevent international arrears if only bankers would take their losses like men; and this is nonsense. What he failed to spell out forcefully enough is that under the test of "adequate domestic policies", only two or three of the Baker 15 would qualify for debt reduction.

What is more important, the resources which the Fund and the Bank could make available to each borrower under the announced rules are pathetically inadequate to support any really radical debt reduction. Bolivia did much better under its buy-back agreement in pre-Brady days than Mexico or Venezuela could hope to do with this kind of backing.

But it is Mr Brady himself who has no right to accuse anyone else. His so-called initiative was in fact a purely negative move: he dismantled the previous US roadblock to any suggestion of debt reduction or forgiveness, whether it came from allies like France or Japan or from the banks themselves. The US Treasury was determined to block any scheme which might result in a charge on the US Budget; and it evidently remains so.

The truth is that if the banks are dragging their feet – rather than simply adopting an understandable cautious bargaining position – Mr Brady is quite largely responsible. Not enough fuss has been made about an astonishing recent ruling from the US Internal Revenue Service: the US banks will not be allowed to offset any losses incurred in international debt reduction against the profits of their domestic operations for tax purposes.

This greatly increases the cost of any debt reduction agreement; but when the banks sent a high-powered delegation to the Treasury to protest, they were told that the decision was irreversible. This ruling, together with the US refusal to provide any resources to help solve a problem which threatens its vital interests, reduces the Brady initiative to the Brady evasion: we won't grumble if you fellows will solve the problem for us.

It is true that any US government faces a big political problem if it tries to do anything effective about debt: Congress is ready to denounce any effective assistance as a bail-out for the banks, and the voters regard it as foreign aid.

A recent opinion poll showed that more than half the voters believe that foreign aid is the second biggest item in the US budget, where it is in fact one of the smallest; but politicians have little right to complain when legislators are parochial and voters are ignorant: that is what leadership is supposed to be about.

The European position on the Brady proposal – that it must not result in any transfer of risk from the private to the public sector – is equal nonsense, and it is also hypocritical. The fact is that the public sector is bound to share the losses, as it has already done, through losses of tax revenue; and that it ought to share those losses.

No one who has taken any interest in international lending can forget the pompous enthusiasm with which all the governments and central banks encouraged foolish lending by the banks in the 1970s.

They called it recycling; and just as the banks encouraged folly by promoting lending officers who could write a more than usual amount of this high-risk business, so governments encouraged the bank chairmen by implying that the most expansive of them – the silliest, as it now turns out – could look forward to a seat in the Lords, an ambassadorship, or whatever honours other countries substitute for bribes.

The few bankers and journalists who tried to give the warnings that bank supervisors should have given got a very different official reaction.

So much for old scores: what chance does the Brady initiative now have – and what about the countries which will not in any case qualify?

Mr Brady's speech of March 10 has had most of the bad consequences which his critics forecast at that meeting: it has aroused unrealistic expectations among both lenders and borrowers, and it has stalled any progress under the old rules.

The Mexican negotiations started with a huge gulf between the relief demand and that offered, reflecting a lack of realism; and the countries whose problems are political as well as economic, notably Argentina and Brazil, seem no longer to be engaged in any meaningful discussions with their creditors.

It will be surprising, all the same, if the Mexican negotiations do not produce some at least marginally useful results, which will serve as a model for Venezuela and for some of the smaller debtors.

The question here is whether the relief which can be agreed will reduce the outward cashflow to the point where growth can be resumed; if not, debt reduction could still be followed by arrears, or default. The answer may well depend on whether the oil price remains high enough to restore the export earnings of the Latin-American producers, which may in turn depend on what now happens in Iran.

However, any oil price which helps Mexico will make matters even worse for Argentina and some other problem debtors; and unless there is soon some plan for them, defaults on a large scale look inevitable.

The question now, therefore, is whether we will see some real leadership this summer, or simply wait for financial and political disasters to write the agenda for the Bank and Fund meetings in September. This is the real test for the leadership qualities which President Bush has just demonstrated in Europe.

Economics Notebook

Green thoughts at the OECD

THANKS to last year's US drought, the hole in the ozone layer and Mrs Thatcher turning green, the world's industrial countries are now firmly on the way to reconciling worries about the environment with the need for economic growth.

Long gone are the days when the environment was a marginal issue in international economic meetings, usually raised by West Germany to the mild bafflement of the other leading industrial nations. Last week's ministerial meeting of the 24-nation Organisation for Economic Co-operation and Development has brought green issues to the centre of economic decision-making.

The OECD has been asked to provide firm analytical data to facilitate environmental decision making. It will, for example, assess the economic costs and benefits and resource implications of environmental proposals.

This is in response to growing pressure for action by governments on such phenomena as the greenhouse effect and global warming. Until now, there has been no repository of expertise to tell policy makers what environmental action will cost in terms of economic growth.

The choice of the OECD to handle the environmental issue appears a good one. It has considerable in-house expertise, having worked quietly on selected international environmental problems, such as the cross-frontier movement of hazardous waste, for the past 20 years. As an international forum, it is well placed to deal with issues like acid rain, where the costs of pollution often are borne by citizens of countries far from the source of problem.

But while the 24 OECD nations account for 75 per cent of the world's economic output, they cover only about a quarter of its land area and are home to only 16 per cent of the world's population. The destruction of rain forests in Brazil and parts of Asia is a reminder that the environment is a global concern.

The OECD faces a major uphill task spreading the industrialised world's green concerns to a developing world where economic growth has failed to keep pace with growing populations and rising indebtedness. There was agreement last week that environmental considerations should be incorporated in development programmes. It remains to be seen whether the July economic summit meeting in Paris can come up with other imaginative and effective ways of spreading the green message to the Third World.

Currency creaks

Those people hoping that last week's OECD ministerial gathering would shed light on the present state of policy co-ordination in the Group of Seven were expecting too much.

The G7 central bankers were – as always – absent from the OECD jamboree. The Japanese and West German finance ministers also stayed away from Paris, while Mr Hans Tietmeyer, the energetic state secretary in the Bonn finance ministry, was missing from the circle of G7 deputies.

Mr Nicholas Brady, the US Treasury Secretary, pleased all by expressing concern about the dollar's strength. He was less clear on other matters. At one point he told journalists that G7 co-ordination was "healthy, well and alive in every respect" and a few minutes later said "there are always going to be moments in time when the G7 process looks a little creaky."

Creaky or not, Mr Nigel Lawson's first priority on his flying visit to Paris last Thursday was to meet Mr Brady for bilateral discussions.

It would probably be wrong to suppose that the G7 experiment of exchange rate management and economic policy coordination is moribund. Seventeen months ago, the group was looking just as groggy as it does now, only then it was struggling to cope with a sliding dollar rather than a strong one.

The G7 then got its act together through discussions over the telephone in December 1987 and delivered a financial blow to currency speculators that ensured many months of calm on the exchange markets.

Crumbling fortress

The United States seems to be overcoming its fears that the European Community's 1992 programme for a barrier-free internal market will create a "fortress Europe."

The agreement between the US and the EC to establish a dialogue on industrial standards appeared to convince Mr Robert Mosbacher, the US Commerce Secretary, that Europe post-1992 would be more open than closed.

A certain mystery has always surrounded the origins of the "fortress Europe" idea and the powerful hold that has had on the US imagination. It now appears that closer acquaintance with the EC among US officials is beginning to dispel the fears.

There could also be sound commercial reasons for the US curbing its complaints about 1992. The rhetoric about "fortress Europe" could have deterred hundreds of small and medium-sized companies in the US heartland from laying plans to grab a share of the EC market of 320m people.

Peter Norman

THIS WEEK

FRESH clues about trends in US inflation will be provided by producer prices figures for May, published on Friday, which could influence short-term movements in financial markets.

The index of the prices of finished goods is regarded as an advance warning of movements in retail prices. Figures released last month were interpreted as pointing to a moderation in inflationary pressures, leading to strong rises in share and government bond prices.

The consensus of analysts' forecasts, compiled by MMS International, the financial research company, is for a month-on-month rise of 0.5 per cent, compared with a 0.4 per cent increase in April.

Other US figures include consumer credit statistics on Wednesday. The consensus is for a rise of of $5bn, compared with $5.4bn in March.

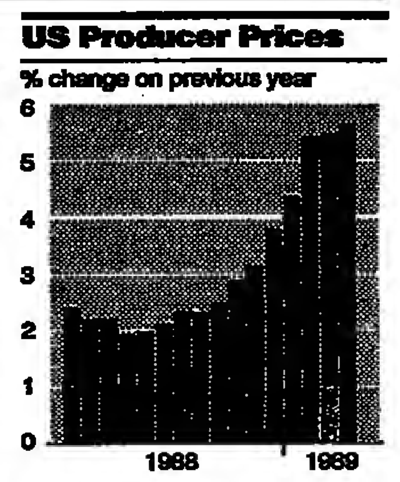
Interest in the UK is likely to concentrate on the strength of the consumer sector. Final figures for retail sales in April are published today and analysts will be looking for revisions to provisional figures showing an unexpectedly large fall of 1.4 per cent.

Also out today are figures for consumer credit in April which will show whether the recent slowdown in personal sector borrowing has continued.

A pointer to trends in retail sales during May will come in the Confederation of British Industry/Financial Times distributive trades survey on Thursday. It is likely to be watched closely for signs that sales volumes remain subdued.

The survey covers sales volumes reported by retailers last month and expectations for June. This month it will also include questions on imports, prices and employment.

Mr Nigel Lawson, the Chancellor, answers questions in the House of Commons on Thursday. Analysts will be looking for hints about interest rate and exchange rate policies and for evidence of any rift between him and Mrs Margaret Thatcher.



In West Germany, trade figures for April are expected tomorrow and are widely-expected to show large surpluses continuing. However, some moderation is expected after the DM12.8bn ($6.54bn) surplus in March. Industrial production figures giving some guide to the strength of output are expected today.

Other events and statistics this week include:

Today: Organisation of Petroleum Exporting Countries ministerial meeting in Vienna. US auto sales in May.

Tomorrow: UK, Halifax Building Society publishes its monthly house price index. Housing starts and completions in April. US initial unemployment claims and 10-day auto sales.

Wednesday: UK, advance energy statistics for April. Department of Employment publishes Employment Gazette. Mr Karl Otto Pöhl, President of Bundesbank, speaks in Cologne.

Thursday: Dr Theo Waigel, West German finance minister, speaks in Aachen on customs. Australian unemployment and employment figures for May. US House of Representatives Ways and Means Trade Subcommittee hearing on "Super 301" list of unfair traders.

Friday: UK, construction output in first quarter of 1989.

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Qatar makes a surprise debut

FOR YEARS there has been speculation about when the Gulf state of Qatar would make its first borrowing in the international loans market. Now it has done so, springing something of a surprise: the $200m five-year credit being syndicated among international banks is being arranged not by an Arab bank but by a US bank, Chase Manhattan.

This seems unlikely to be a source of joy at Gulf International Bank. GIB is owned by the seven Arab states of the Gulf – Saudi Arabia, Iraq, Kuwait, the United Arab Emirates, Oman, Bahrain and Qatar – and has come to be thought of almost as the house bank of the region's governments. The bank has not had an easy passage in recent years because of weak *oil prices and* the economic contraction in the Gulf.

This new development, although more significant psychologically than financially, will not help.

The loan – which carries a 2½-year grace period and an interest margin of 22½ basis points – is the latest in a number of successes in the region for Chase, which is underwriting the whole $200m. Early in the year the bank offered to underwrite the whole of a $400m, three-year deal for Qatar General Petroleum Corporation, at an identical margin, to finance the development of a large offshore gas project. In the end it was one of nine banks to underwrite the loan.

Oman has been a fairly regular borrower in the international markets, a fact reflected in the margins it pays, split between ⅜ and ½ point. Qatar has not, but this may mean banks do not have credit limits for the country. Given that Qatari nationals are counted in the tens of thousands (ignoring the larger expatriate population), the credit represents an extraordinary amount of gross *external debt per capita.* Qatar is still, however, considered to be a large net creditor, which enjoys significant earnings from its oil exports.

The biggest new credit of last week, and bankers say the fattest information memorandum and lengthiest presentation to bankers, was that of Harper & Collins. This is to be the name of the group of mainly financial investors buying a group of publishing interests from the stable of Mr Rupert Murdoch.

The new group – which incorporates William Collins of the UK, Harper & Row of the US, and some Australian and New Zealand magazine interests – is borrowing $1bn. The financing, arranged by Manufacturers Hanover, comprises a $880m seven-year and a $120m revolving credit for working capital.

The credit is plain – no disposals are being built into the buy-out plans – and the interest margin starts at 1¼ points, declining along with the company's gearing. When that falls to 4½ times, the margin falls to one point. It is underwritten by seven banks.

In the UK, Morgan Grenfell has put together what it says is the first acceptance agency facility, a £50m facility for Coloroll. The facility is meant to complement the group's other short-term borrowings, including a sterling commercial paper programme on which Morgan is a dealer. Acting through Morgan, Coloroll will use the cheapest market. Banks tendering for acceptances will know whether their bids have been accepted on the day they make them. Most wait 48 hours.

In the Eurocommercial paper market, South Australia Brewing has a $200m programme, arranged by Swiss Bank Corporation International, with Citibank and J.P. Morgan also acting as dealers.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	1,300.1	0.0	68.0	9,489.7
Prev	1,367.0	0.0	10.0	10,573.3
Other	1,808.4	0.0	301.3	1,172.4
Prev	881.0	0.0	0.0	1,304.4

Secondary Market

	Straights	Conv	FRN	Other
US$	22,118.1	1,084.2	6,199.2	6,252.8
Prev	29,129.1	1,087.3	6,787.9	7,381.0
Other	16,259.0	874.0	4,746.0	22,793.8
Prev	13,872.6	954.1	3,260.2	22,604.8

	Cedel	Euroclear	Total
US$	12,107.0	34,305.1	46,412.1
Prev	11,966.1	44,369.5	56,335.6
Other	19,176.3	28,778.6	47,954.9
Prev	18,440.6	24,436.6	42,877.2

Week to June 1, 1989

Source: AIBD

INTERNATIONAL BONDS

Finland's innovative $250m deal arouses controversy

THERE WAS only one borrower's name on people's lips in the Euromarkets last week – Finland. If that was unusual, then it followed Tuesday's innovative $250m deal launched for *Finland* by J.P. Morgan, a deal which had rival syndicate managers reaching for their thinking caps.

The seven-year issue, carrying a 9 per cent coupon and a *spread against Treasuries* of 48 basis points, came with a novel exchange offer. Investors in previous Finland deals could choose to switch into the new issue, which would be increased accordingly to a maximum of $1.058bn.

Three days later, some $155m had been registered for exchange, meaning that the issue size will rise to at least $400m. There are still two weeks during which investors can decide to switch.

Initial reactions to the deal were encouraging, although there were murmurs of disagreement which grew louder. While the new issue was judged as fairly priced, syndicate officials expressed concern not only that some investors were being offered a raw deal, but also that it was far from clear that the borrower would really benefit.

Argument about the deal diverged from general agreement that the idea behind it was brilliant, depending on whether the borrower's or investor's perspective was adopted.

For the borrower, the deal seemed to offer an opportunity to concentrate its borrowings in a single, liquid benchmark which should trade on a tight spread against the US government bond market. Previous Finland issues have been small and have tended towards illiquidity, so that the borrower complained that its deals underperformed those of comparable sovereign issuers.

By creating a benchmark deal, Finland hopes to command a tighter spread when it borrows in the future. The money spent to create the benchmark, both during the actual deal and in the buy-back programme which preceded it, will in theory be recovered by more competitive funds.

Syndicate managers outside the deal question this line of argument, accusing it of being illogical. They point out that Finland is not a borrower with regular funding requirements, that new issues are also priced against the market rather than merely against a liquid secondary issue by the same borrower, and that any benefits in terms of costs are highly speculative and hard to quantify.

Mr Peter Bernard, syndicate manager at J.P. Morgan, did not rule out these arguments, but maintained that the evidence was already there in spread terms that Finland deals would trade more competitively in future. He pointed out that in an increasingly institutional market, liquidity was of growing importance to investors and that Finland was giving the market what it wanted.

From investors' points of view, the arguments were quite different. For tax and reporting reasons, there are many investors who will go to great lengths to avoid a capital loss on their transactions.

They are put in a difficult position where they hold old Finland bonds, many of which can only be exchanged by taking a capital loss. One alternative is to hold their bonds, but the investors know that these will be even more illiquid than they were before the exchange offer was made.

A third possibility, switching into a completely different issue, was dismissed by most traders as too expensive on the sell side, although J.P. Morgan said it was making the same bid price whether investors were exchanging or simply selling their Finland bonds.

In reality, then, the new structure should appeal mainly to those investors who can tolerate a capital loss. They can switch into last week's deal for a yield and liquidity pick-up, confident that they will be able to trade in size.

There were more controversial undertones to the discussions of the deal, however. J.P. Morgan made no secret of the fact that some weeks before the exchange offer, it had operated a buy-back programme for Finland, acting as agent for the republic.

Such programmes are common enough, but they have never before been followed by a deal which finds part of its justification in the illiquidity of the secondary market in the same borrower's issues. Arguably, the buy-in itself made illiquid deals even more illiquid, so that investors faced an even starker choice when the exchange deal was announced.

While there was no suggestion that there was anything untoward, one syndicate official commented that it had played into a growing awareness that the bond market was not exempt from potential conflicts of interest.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Press Kogyo Co.Φ◆	100	1993	4	4¼	100	Nomura Int.	4.250
Seika Corp.Φ◆	80	1993	4	4⅝	100	Daiwa Europe	4.625
*Sapporo Breweries*Φ◆	200	1993	4	4⅛	100	*Yamaichi Int. (Eur)*	4.125
Mitsubishi Heavy Ind.Φ◆	1.5bn	1993	4	4	100	Nikko Secs. (Europe)	4.000
Mitsukoshi Ltd.Φ◆	400	1993	4	4	100	Nomura Int.	4.000
Alps ElectricΦ◆	200	1993	4	4⅛	100	Daiwa Europe	4.125
Olympus Optical Co.Φ◆	150	1993	4	4	100	Yamaichi Int. (Eur)	4.000
Olympus Optical Co.Φ◆	150	1993	4	4	100	Nomura (Singapore)	4.000
Suzuki Motor Co.Φ◆	300	1993	4	4	100	Nikko Secs. (Europe)	4.000
Daiwa House Ind.Φ◆	800	1993	4	4	100	Nomura Int.	4.000
Ferrovie dello Stato◆	500	2009	20	9⅛	101⅝	Morgan Stanley Int.	8.948
Finland, Republic of(a)◆	250	1996	7	9	100⅛	J.P. Morgan Secs.	8.975
Xerox Credit Corp.◆	125	1993	4	10	101.725	Goldman Sachs Int.	9.462
Dai-Ichi Kangyo Bank§	300	2004	15	(3⅞)	100	DKB Int.	★
C. Itoh & Co.Φ	600	1994	5	(5)	100	Nikko Secs. (Europe)	★
C. Itoh & Co.Φ	400	1994	5	(5)	100	Yamaichi (Asia)	★
Kobe SteelΦ	300	1993	4	(4⅜)	100	Yamaichi Int. (Eur)	★
Kobe SteelΦ	300	1993	4	(4⅜)	100	Nomura (Singapore)	★
Ube IndustriesΦ	400	1993	4	(4⅜)	100	Yamaichi Int. (Eur)	★
Nichirei Corp.Φ	150	1993	4	(4½)	100	Nomura Int.	★
Amada SonoikeΦ	100	1993	4	(4½)	100	Nomura Int.	★
Metropolis of Tokyo◆	200	1994	5	9¼	101⅝	IBJ Int.	8.834
Oest. Kontrollbank◆	175	1994	5	9¼	101⅜	J.P. Morgan Secs.	8.897
Tokyu ConstructionΦ	150	1993	4	(4½)	100	Yamaichi Int. (Eur)	★
Flash Series G(j)‡◆	30	1993	3¼	15bp	100.10	Sanwa Int.	-
State Bank Victoria(o)‡◆	125	1994/99	5/10	5bp	100	Merrill Lynch Europe	-
Nikon Corp.Φ	300	1993	4	(4⅜)	100	Nikko Secs (Europe)	★
Yokohama Rubber Co.Φ	120	1993	4	(4½)	100	Yamaichi Int. (Eur)	★
*Toyo Construction Co.*Φ	*100*	1993	4	(4½)	*100*	*Nomura Int.*	★
Credit National(p)★★◆	60	1992	3	11.925	100	Daiwa Europe	11.925
Silicon Graphics Inc.§	50	2004	15	(7½-8)	100	Morgan Stanley Int.	★
AUSTRALIAN DOLLARS							
N.Sth Wales Treasury(k)◆	85	1993	4	12½	93.431	Bain & Co.	
D-MARKS							
Dai-Ichi Kangyo Bank§	200	1996	7	[2⅞)	100	Dresdner Bank	★
Z-Bank, Vienna(f)★★◆	100	1999	10	7½	102¼	Morgan Stanley	7.177
Fiat Fin.and Trade(g)★★◆	100	1992	3	8¾	100⅛	WestLB	8.701
Inter-American Dev.Bank◆	300	1999	10	7¼	100½	Deutsche Bank	7.178
SWISS FRANCS							
Hokuriku El.Ind.(i)★★§◆	150	1994	-	½	100	Nomura Bank (Switz)	0.500
Showa Highpolymer★★Φ◆	90	1994	-	1¼	100	Citicorp Inv. Bank	1.250
Magara Construction★★Φ◆	30	1994	-	1¼	100	Handelsbank NatWest	1.250
Magara C'tion(m)★★§◆	30	1994	-	½	100	Handelsbank NatWest	0.500
Tobishima Corp.(n)★★§◆	500	1993	-	½	100	Citicorp Inv. Bank	0.500
Dai-Ichi Kangyo Bk(b)§	300	1993	-	(½)	100	Credit Suisse	★
Dai-Ichi K.Bank(c)★★§	600	1993	-	(Zero)	100	Credit Suisse	★
Dai-Ichi K.Bank(d)★★§	100	1993	-	(⅜)	100	Dai-Ichi Kangyo Bank	★
Nitto Chem. Ind.(e)★★§	100	1994	-	(½)	100	UBS	★
General Motors Corp.◆	120	1999	-	6⅛	100½	J.P. Morgan Secs.	6.057
Korakuen Co.(q)★★§	150	1993	-	(Zero)	100	Credit Suisse	★
Yuraku Real Est.(r)★★§	100	1994	-	(½)	100	SBC	★
Chisan-Tokan Co.(s)★★§	70	1993	-	(⅝)	100	Credit Suisse	★
Weston Corp.(t)★★§	40	1994	-	(Zero)	100	UBS	★
Yuasa Shoji Co.(w)★★§	100	1994	-	(½)	100	Nomura Bank (Switz)	★
STERLING							
Gracechurch Mort.Fin.‡◆	175	2019	6.2	(h)	100	BZW	
ECUs							
Japan Highway◆	150	1996	7	9⅛	101.65	LTCB (Europe)	8.799
GUILDERS							
Heineken NV★★◆	150	1994	5	7⅝	101½	ABN	7.257
Vereniging Aegon★★◆	100	1992	3	7¾	100¾	ABN	7.462
Waterschapsbank NV◆	150	1999	10	7⅝	102	Amro Bank	7.336
PESETAS							
Int. Finance Corp.◆	10bn	1994	5	12½	101⅝	Citibank Espana	12.049
LUXEMBOURG FRANCS							
EIB★★◆	300	1994	5	8	100⅞	Sogenal	7.782
KB Int. Fin.NV★★◆	300	1995	6	8	100½	Kredietbank Int.	7.892
ECSC◆	*1bn*	1994	5	7¾	*100½*	*BGL*	*7.526*
YEN							
Marubeni UK(l)◆	17½bn	1994	5	(l)	112.603	Daiwa Europe	-
GTE Finance Corp.◆	13bn	1994	5	5½	101½	Yamaichi Int. (Eur)	5.152
S'te Elec.Comm.Victoria◆	15bn	1994	5	5.1	101	Yamaichi Secs.	4.932
Queensland Treas.Corp.◆	10bn	1994	5	5.2	101	Nikko Secs.	5.033
S'te Bk South Australia◆	35bn	1996	7	(u)	101⅞	Nomura Int.	-
ASLK-CGER IFICO(v)◆	13bn	1993	4	7¾	101⅝	Daiwa Europe	7.267
Banco di Napoli(v)◆	3bn	1994	5	7.76	101⅞	IBJ Int.	7.299
Banca Comm.Italiana◆	17.39bn	1994	5	(x)	113.40	Daiwa Europe	-

★Not yet priced. ★★Private placement. ΦWith equity warrants. ‡Floating rate notes. ◆Final terms. a) Tap up to $1.058bn. Exchange offer for holders of any old fixed rate Finland dollar bonds. b) Indicated put to yield 2.785%. c) Indicated put to yield 3.022%. d) Indicated put to yield 2.870%. e) Indicated put to yield 2.384%. f) Additional DM100m on tap. g) Borrower option to redeem in DM or C$ at DM1.52. h) 20bp over 3-month Libor. Spread rises to 80bp over Libor after June 1999. Call from June 1992 at par. i) Put to yield 2.114%. j) 15bp over 3-month Libor. k) Fungible with A$150m bond launched in March, including exchange offer into domestic bond. l) Step-down coupon: 11.13% year 1, 7.732% thereafter. m) Put yields 2.124%. n) Put yields 2.09%. o) 5bp over 6-month Libor. Call at 100 after 5 years or borrower may give investors option to extend issue for further 5 years. p) Redemption currency linked. Yen/$. Put to yield: q) 3.17%. r) 2.392%. s) 2.431%. t) 3.477%. u) Coupon years 1-3 5½%, Nikkei stock linked remainder. v) Redemption linked to Nikkei stock index. w) Put to yield 2.381%. x) Step-down coupon: first coupon 11.4%, 8.05% thereafter. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Sought-after rates achieved at last

THE GILT-EDGED securities market last week witnessed its biggest shake-out since the aftermath of the 1987 October stock market crash.

It has wanted to sell the long end of the market for some time, and reports that the Treasury was reassessing the funding rule was enough to tip the balance.

The market was looking for a reason to break out of its trading range after a week of rumours about changes to policy, damaging speculation about differences between No 10 and No 11 Downing Street and worries about sterling.

With the peak in inflation some time off – in the near but indeterminate future – and with all the political and currency worries, the "cost of carry" sums just did not make sense. To buy long gilts below 10 per cent at current money market interest rates would have required a rise in prices at the long end of a point over the next three months for the investor simply to make sure of breaking even.

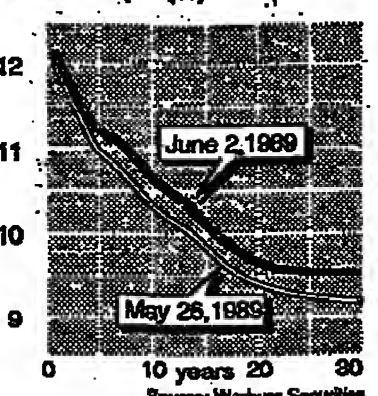
In a sense the market's key move was last Wednesday when long yields rose decisively through the 10 per cent barrier. Friday's news, which put funding policy back on the agenda, consolidated the move above 10 per cent.

In any event, the market wanted a somewhat flatter yield curve and it has got it.

From the official perspective, funding policy is not about to change. The line from both the Treasury and the Bank of England is, however, that policy is not fixed in concrete; it is assessed continually. Officials say they cannot rule out changes to funding policy but that this is not a runner at present.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

It could, therefore, be an interesting summer.

What seems certain is that pressure is building for an end to the situation in which the public authorities borrow at relatively cheap long-term interest rates and put them on deposit with banks at much higher rates.

This "round tripping" has been a large cause of the cash surpluses in the money market. Possibly as much as £6bn of liquidity was added to the market through this device in 1988-89 and the indications are that the Government may move to curtail it.

The talk about over-funding has been largely confused. This is especially so in the case of Professor Alan Walters, the Prime Minister's economics adviser, who wanted monetary base control in the early 1980s, but was ultimately defeated by the Treasury and the Bank and settled for M0 as a consolation prize.

It is difficult to associate over-funding with him as he is not a broad-money man and over-funding is all about reducing the rate of growth of broad-money aggregates.

What is possible, however, is that a case could be made for saying that the operation of an M0 and exchange rate policy has not been unambiguously successful over the past two years.

In this the Treasury and the Bank are vulnerable to attack if anyone with the ear of the Prime Minister choses to do so. And the Prime Minister's recent comments on shadowing the D-Mark had the unmistakable ring of Prof Walters – a man known for his aversion to playing around with exchange rates.

In the absence of broad-money targeting it is difficult to see what over-funding would achieve. If it came about simply to deal with the monetary sector's disinvestment of gilts, specifically the banks, then a change would seem not much more than a short-term expedient which may do more damage to the credibility of policy than good.

The problems created by the banks' sales of gilts – they accounted for a £4bn injection into the money market in 1988-89 – may well have passed.

At the end of April, the banks' holdings of gilts amounted to just £4.9bn (building societies held £7.5bn of gilts) and there is a limit to the extent to which their holdings can be run down.

Also a move to over-funding on account of the banks' past behaviour assumes they will always be sellers; if they turn and buy gilts the authorities could find themselves in the embarrassing position of under-funding, with expansionary monetary consequences.

More importantly, if the concern is that current funding policy is leading to too much cash sloshing around in the money market, which depresses short yields, then that is what is likely to happen if a move to over funding takes place.

The Bank will be required to assist the market, by buying commercial bills.

As in the past the only way to do this is to force prices higher and short-term yields lower. In sum, a repetition of the current "problem" by different means.

A better response would be to stop local authorities round tripping.

Simon Holberton

US MONEY AND CREDIT

Stampeding bulls ignore obstacles

WITH long-term US interest rates falling below 8½ per cent for the first time since March 1988, the case for buying bonds has rarely seemed more persuasive.

The US economy is slowing. The Federal Reserve Board is flooding the market with leaks about easing monetary policy, if not yet with money itself. The dollar is still riding high, yet the US trade position is holding up better than most economists had predicted a few months back.

Against a background like this, it is hard to begrudge last Friday's 1½ point rally and tempting to share the increasingly widespread belief that a full-scale bull market in US bonds is finally under way. This morning, as investors respond to the exceptionally favourable report for May from the National Association of Purchasing Managers, it may seem hard to imagine what obstacles could possibly stand in this rally's way.

The NAPM report provides the fullest reassurance imaginable for those fainthearts who continued to doubt the economic slowdown even after Friday's weak employment statistics. The NAPM's composite index, which is probably the best and certainly the most immediate indicator of cyclical movements in the economy as they take place, fell to 49.7 per cent in May from 53 per cent in April. This was the first reading below 50 per cent since July 1986 – a crucial development since, according to the statistical analyses conducted by the NAPM and the Commerce Department, a number below 50 suggests "the economy is generally declining."

Better still, the details of the NAPM figures revealed that the character of the slowdown was almost perfect from the bond market's and Fed's point of view. Export orders continued to increase in May, even if the rate of growth decelerated slightly. Capital spending remained fairly strong, while inventories continued to decline. The purchasers noted fewer delivery bottlenecks and the index of planned price increase fell dramatically to its lowest level since December 1986.

What more could bond investors hope for? Presumably only a confirmation of the lower inflation trend in Friday's producer price index, followed (or possibly even preceded) by an explicit Fed easing and cut in prime rates. Unless the PPI contains some unexpected horrors – which in the present circumstances might mean an overall PPI of more than 0.7 per cent and a rise in the core rate, excluding food and energy, of more than 0.5 per cent – the market could easily extend last week's rally.

Of course, the market may pause for breath in the next few days and fail to react even to a decent PPI figure. Before committing themselves fully to another step reduction in interest rates, investors, as well as the increasingly impatient policy-makers in Washington, could well decide to wait for the batch of trade, industrial production and consumer price statistics due out next week. The fact remains, however, that even Wall Street's more sceptical bond analysts, such as Mr Bob Giordano of Goldman Sachs and Mr Bob Brusca of Nikko Securities, have to admit that, unlike the surge in bond prices which began last autumn and ultimately degenerated into the rout of early spring, the present rally seems to make economic sense.

It is precisely at times like these, when all the evidence seems weighted overwhelmingly in one direction, that it is worth focusing on the factors which could pull the market unexpectedly against the universally recognised bullish trend.

Despite all the present excitement, there seem to be at least three reasons why this may not be such a brilliant time to buy US bonds.

Firstly, there is the level of the dollar. Although the dollar's recent surge has been seen almost universally as the catalyst which set off the rally in US bond and stock prices, its true effect is far more ambiguous. As the dollar has risen, so has the risk of holding US securities for overseas investors. Given the expected fall in short-term interest rates in the next few weeks, it may well turn out that last month's sudden climb by the dollar will prove to be a mere aberration or, even worse, the climatic spike which brings the 18-month mini-bull market in the dollar to an end.

If the dollar starts to retreat in response to a monetary easing in the US, then the best investments to take advantage of this easing might be European and Japanese bonds, not American ones.

A second reason for caution is quite simply that so much good news has already been built into market prices. The long bond is yielding 8.5 per cent at a time when "good" PPI and CPI statistics are viewed as those which indicate an underlying inflation rate of "only" 5 per cent or so. For many tax-paying investors, this means the real long-term interest rate is now less than zero, and even for tax-free funds the real rate of 3.5 per cent is hardly a once in a lifetime bargain.

The bulls argue, of course, that the present underlying inflation rate of 5 to 5½ per cent is only a temporary peak. Inflation is known to be a lagging indicator and, given imminent slowdown in the US economy, inflation can be expected to start falling sharply six months to a year from now. In that case, it might be more reasonable to gauge long-term bond yields against a long-term inflation rate well below the present level. There is no shortage of bullish analysts on Wall Street willing to predict that inflation will fall virtually to zero and long-term bond yields will decline to 5 per cent or so in the next few years.

Unfortunately, such predictions fly in the face of political reality. As is all too evident already, there is no powerful constituency in the American public, in the Federal Reserve Board, or even on Wall Street, which favours a drastic reduction in inflation.

The clearest evidence for this is provided by the speed with which both the Fed and Wall Street have concluded that "a soft landing" is now assured and that interest rates must be cut immediately to avoid an outright recession.

This points to the third and most important reason why US bonds at present levels may prove a dubious investment in the long term. It is now likelier than ever that the Fed will ease back from prematurely reviving the economic expansion well before inflation has been cooled down. To put it another way, the "soft" part of Mr Greenspan's soft landing seems to have been achieved. But is the US economy actually landing, or simply gliding downwards until it catches another inflationary updraft later on in the year?

Anatole Kaletsky

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	9.51	9.00	9.87	10.00	6.27
Three-month Treasury bills	8.62	9.01	8.93	9.11	5.60
Six-month Treasury bills	8.56	8.90	9.09	9.30	5.74
Three-month prime CDs	9.30	9.55	9.95	10.15	6.77
30-day Commercial Paper	9.50	9.50	9.70	9.81	6.65
90-day Commercial Paper	9.15	9.30	9.70	9.82	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	104¼	+1¼	8.49	8.68	9.20
20-year Treasury	107⅛	+1	8.56	8.66	9.08
30-year Treasury	104⅛	+1¼	8.43	8.61	8.98

Source: Salomon Bros (estimates).

Money supply: In the week ended May 22 M1 fell by $0.5bn to $772.5bn

NRI TOKYO BOND INDEX

December 1985 = 100	1/6/89	Average yield (%)	Last week	12 wks ago	26 wks ago
		PERFORMANCE INDEX			
Overall	147.82	5.18	147.99	147.53	148.15
Government Bonds	147.83	5.20	148.24	147.54	149.60
Municipal Bonds	149.77	5.37	149.90	149.81	149.57
Govt.-guaranteed Bonds	150.85	5.16	150.85	150.94	150.53
Bank Debentures	141.71	5.17	141.63	141.53	141.15
Corporate Bonds	146.56	5.46	150.22	148.83	146.90
Yen-denom. Foreign Bonds	150.10	6.06	154.96	153.23	150.11
Government 10-year†	5.10	n/a	5.07	5.00	4.77

† Estimated par yield

Source: Nomura Research Institute

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. on week	Yield
AHFC O/S.FIN. 11¼ 94	100	102½		+¼	11.00
ALBERTA PROVINCE 7⅞ 93	750	95¾		+¾	9.33
ALBERTA PROVINCE 9⅞ 95	600	101¼		+1	9.11
ALCOA AUSTRALIA 11 92	80	100⅞		+¼	10.62
AMERICAN GENERAL 9⅞ 95	100	101¼		+⅞	9.35
AUSTRALIA 11¼ 90	100	103¼		+¼	9.77
AUSTRALIA 11¼ 00	100	107½		+⅞	10.09
AUSTRIA 7⅛ 97	200	92⅝		+1	9.11
AUSTRIA 8½ 90	250	98¾		+⅛	9.68
[illegible]					

YEN STRAIGHTS	Issued	Bid	Offer	Chg. on week	Yield
ALLIED-SIGNAL 6⅞ 93	20.0BN	103		0	5.79
AUSTRIA 4⅞ 94	30.0BN	98		+⅛	5.23
AVON CAPITAL 6⅞ 91	26.0BN	108		0	6.73
BARCLAYS O/S INV 6 96	40.0BN	103½		+¼	5.40
B.F.C.E. 5¾ 96	20.0BN	102⅜		+¼	5.28
CANADIAN PACIFIC 6¾ 96	10.0BN	105¼		0	5.77
[illegible]					

	Issued	Bid	Offer	Chg. on week	Yield
TEXACO CAPITAL 11¼ 94	500	105¼		-3½	7.30

The remaining bond listings on this page (U.S. dollar straights, floating rate notes, Deutsche Mark, Swiss franc, Canadian dollar, ECU, Australian dollar, sterling, convertible and equity warrant sections): [illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: [illegible] Closing prices on JUNE 02

Arnault confident of winning LVMH vote

By Paul Betts and George Graham in Paris

MR BERNARD ARNAULT, the chairman of Moët Hennessy-Louis Vuitton (LVMH), the French champagne, cognac and luxury goods group, appears confident of securing a comfortable majority at Friday's long-awaited shareholders' meeting.

Despite the freezing of a portion of his stake by the Paris commercial court last week, the Arnault camp believes it can rely on at least 60 per cent of the votes at the meeting, enough to block any attempt by Mr Henry Racamier, head of the dissident Louis Vuitton clan, to change the group's existing management board, which is chaired by Mr Arnault.

Unless Mr Racamier succeeds in changing the balance of power at LVMH, the way will be clear for Mr Arnault to prevail over his rival at the subsequent shareholders' meeting of the Louis Vuitton subsidiary, where LVMH owns 98 per cent.

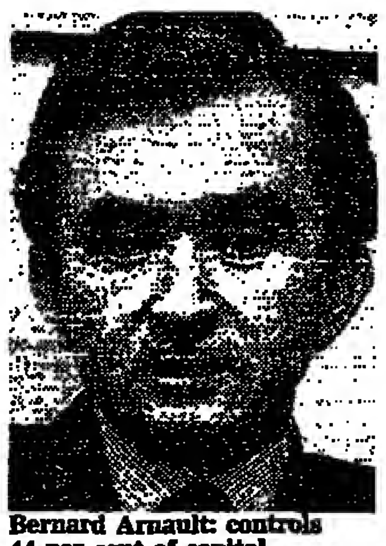
At that meeting, Mr Arnault will call for a change in Vuitton's corporate structure, at the same time lowering the retirement age to force the 77-year-old Mr Racamier out of the Vuitton chairmanship. Mr Racamier would, however, remain vice chairman of LVMH.

The Vuitton meeting is scheduled for June 13, and must take place by June 30, although the Racamier camp is seeking ways of delaying it further. The change in statutes would require a second meeting at least a month later.

Mr Arnault, 40, controls a total of 44 per cent of LVMH's capital and 35 per cent of its voting rights in partnership with Guinness, the UK drinks group. The recent court decision freezes about 5 per cent of Mr Arnault's votes, although the sequestrator has been ordered to vote against any challenge to the existing management.

However, Mr Arnault expects to count on most of the 20 per cent voting rights held by the Moët and Hennessy families, and is confident of the support of a further 10 per cent from institutional investors.

The Vuitton families, meanwhile, have around 27 per cent of LVMH's voting rights.



Bernard Arnault: controls 44 per cent of capital

In two years Mr Arnault's shares, too, will qualify for double voting rights like those of the Vuitton and Moët families, giving him and Guinness outright control of the group.

Guinness's total interest in LVMH now amounts to 24 per cent, held indirectly through the holding company Jacques Rober, and through Christian Dior, the vehicle through which Mr Arnault controls 55 per cent of Rober.

LVMH, for its part, owns 12 per cent of Guinness, making it by far the British company's largest shareholder. An agreement between the two groups permits LVMH to raise its stake to the same level as the Guinness holding in LVMH.

Although no decision has yet been taken by LVMH, the French group is widely expected to increase its holding soon.

Before last week's court decision, Mr Racamier had been planning to propose a motion to change the LVMH board to dilute Mr Arnault's current control. Even if he now decides not to do so, some minority shareholders are expected to challenge Mr Arnault at Friday's meeting, which is likely to be marked by noisy and acrimonious confrontations.

Mr Racamier has been taking out full-page advertisements in the French press to put his case, to the profound irritation of Mr Arnault, who has taken legal action. Mr Arnault is now expected to launch his own advertising campaign before the meeting.

Although time appears to be running out for Mr Racamier in his nine-month struggle with Mr Arnault, he will remain a potential thorn in the younger man's side as leader of a large minority share block.

It was Mr Racamier himself who first invited Mr Arnault into LVMH, but the relationship between the two men has now deteriorated to a point where it is difficult to see any hope of reconciliation.

Earnings upsurge at Bank of Montreal

By Robert Gibbens in Montreal

BANK OF MONTREAL, in line with the other five big Canadian chartered banks, reports an upsurge in earnings for the first half of fiscal 1989.

Earnings rose 50 per cent due to higher net interest income, lower loan loss provision and better control of expenses. They were $C262.9m (US$219.4m) or $2.24 a share, up from C$175.5m or $1.49 a share a year earlier. Return on average assets was 0.68 per cent against 0.44 per cent.

Second-quarter earnings were C$112.6m or 94 cents a share, up from C$22.5m or 10 cents. The latest earnings were reduced by C$14m because Venezuelan loans were placed on a cash basis.

Bank of Montreal has the heaviest exposure to Third World loans among the Canadian banks. Total exposure has been reduced by C$368m to C$4.9bn this year and an additional C$100m has been provided.

The bank's results include Harris Bankcorp, its US subsidiary, and Nesbitt Thomson, the Canadian securities dealer, both of which improved their results in the second quarter.

Varity considers moving from Toronto to US

By Robert Gibbons

VARITY CORPORATION, the old Massey-Ferguson farm equipment company, once almost as Canadian as the mounted police, may move its headquarters from Toronto to the US.

This is one of several steps considered by Varity as it struggles to win the confidence of investors in its restructured form. Other moves are also being considered. Some of these include the buying back of its own shares, paying common dividends again, a reverse stock split and employee stock options.

Mr Victor Rice, chairman, said the headquarters move was being considered because two-thirds of the equity was now owned by US investors. In addition, most of its sales would be in the US, with acquisition of the Kelsey Hayes truck component business from Fruehauf. Varity already has a large auto parts subsidiary in the US.

In the year to January, Varity posted net profit after preferred dividends of US$82m, or 33 cents a share, on sales of US$2.3bn. It cut long-term debt to $250m, the lowest in 15 years. Analysts estimate 1990 profit at 40 to 45 cents a share.

Bergen exchange signs Norwegian options deal

By Andrew Freeman

THE BERGEN Stock Exchange has signed a general agreement with the Norwegian Options Market (NOM) which clears the way for the establishment of options trading on the exchange.

The agreement means that the exchange will develop and control trading systems for options and other financial instruments, while NOM will be a party to all trades and will continue to be responsible for settlement and clearing functions in line with its clearing house status. Trading is expected to begin later this year when the necessary regulatory framework has been finalised by the Norwegian Finance Ministry.

The ministry is expected to issue a rule book as well as trading licences before the autumn.

The electronic trading system will include automatic matching and block order facilities. It is understood that both put and call stock options will be traded.

Perstorp shows 15% rise after acquisitions

By Robert Taylor in Stockholm

PERSTORP, the Swedish specialty chemicals and plastics group, reports a 15 per cent rise to SKr464m ($70m) in profits after financial items for the first eight months of the year ending August 1989, compared with the same period last year.

Operating profits rose by 32 per cent to SKr679m, while sales increased by 27 per cent to SKr4.29bn, helped mostly by acquisitions.

Mr Karl-Erik Sahlberg, chief executive, estimated profits after financial items for the whole year at about SKr650m. He said he believed the return on total capital and shareholders' equity would decline, although remaining well above group targets.

The best performance in sales has come in the components area with a 73 per cent increase to SKr586m. But there were also impressive sales in the biotec sector, with a 36 per cent jump, and surface materials, which improved turnover by 32 per cent.

Western airlines eye Mexicana

By Richard Johns in Mexico City

A NUMBER of US and West European airlines have expressed an interest in buying into Compania Mexicana de Aviacion (Mexicana) in association with the Government's plans to privatise the airline, according to a senior official of the Ministry of Finance.

The official said bids would be reviewed on Friday.

He declined to say which airlines were interested and, in particular, to confirm apparently well-informed speculation that British Airways is one of them.

He said, however, that the Government would not sell its stake – currently 51 per cent – in the debt-burdened company for a period of three years but would keep it in a trust.

The official said: "The Government is not going to receive any money in the short-term because it wants to strengthen the business so that it can compete with the American carriers."

The privatisation move was aimed at raising fresh capital so that the financially restructured airline "can get off to a good start."

He added that "in many areas Mexicana has lagged behind," and that the aim was to dilute the Government's share of an increased capital base to 28 per cent.

After three years, the Government would dispose of its stake either to existing shareholders at a pre-determined price or via the Mexican stock market.

Foreign majority control would not be permitted but (in line with Mexico's foreign investment law, which reserves majority ownership of airlines to national companies) with a diluted shareholding any group with 33 per cent would have effective control, the official said.

The interest of foreign carriers in Mexicana was not to control it but to use it as a means to expand flight routes, he added. Debt swaps as a means of purchase have been ruled out by the Government.

Last year Mexicana earned a profit of 307.6bn pesos ($136.3m) on turnover of just over 1,700bn pesos but at the end of 1988 the airline still had an external debt of $235.4m.

Moves towards the "disincorporation" of Mexicana is the first major privatisation measure so far announced by the administration of President Carlos Salinas de Gortari.

Its predecessor first tried to sell its share in Mexicana just over two years ago and failed in two attempts, although it succeeded in disposing of Aeromexico, the other big national carrier, last November.

So far 572 parastatal enterprises have been disposed of out of 1,555 earmarked in 1982 for privatisation and 756 for which sale has actually been authorised.

Of the latter, the two outstanding failures to date, apart from Mexicana, have been Compania Minera de Cananea and the Dina motor group.

Of the Dina group, for which a sale deadline of end-November 1988 was originally set, the official said that the Government was in negotiations with a foreign company interested in buying three of its five divisions.

Deutsche Bank and Fiat in credit card plan

By John Wyles in Rome

FIAT and Deutsche Bank have announced their first common initiative since the latter became a long-term shareholder in the Italian motor group.

They will launch a credit card, to be known as FidisCard, through a company to be set up by Fidis, Fiat's main financial services company, and Banca d'America e d'Italia (BAI), Deutsche Bank's Italian banking subsidiary.

According to Fiat, the new card will gain from "BAI's specific experience of international credit card operations through the BankAmerica Card, and from the commercial presence of the Fiat group."

Deutsche Bank holds about 3 per cent of Fiat's share capital, following the partial failure two years ago of an attempt to market the 15 per cent stake in the Italian group formerly held by the Libyan Government.

The bank announced some months ago that it intended to become a long-term shareholder in Fiat.

Savings banks agree to link

By Laura Raun in Amsterdam

SAVINGS banks in the Netherlands and Belgium have forged an accord to attune their products and services ahead of a barrier-free Europe.

The agreement follows similar deals between Belgian, French, Spanish and Swedish savings banks aimed at better service for foreign clients and lower costs.

The goal of the European Association of Savings Banks is to promote cross-border co-operation to take advantage of savings banks' regional strengths, branch networks and high market shares.

About 86 banks in the Netherlands and Belgium will co-operate in lending and automatic teller machines.

Avesta impresses with interim rise to SKr580m

By Robert Taylor

AVESTA, the Swedish stainless steel manufacturer, continues to perform impressively. In the first four months of this year its profits after net financial items was SKr580m ($87.2m) compared with SKr306m for the same period of 1988. The group's invoiced sales also showed a substantial improvement – up from SKr2.28bn to SKr3.53bn over the same period earlier.

The company said that it was difficult to assess the market situation for 1989. Although demand was expected to stay strong it would not be as strong as it had been since 1987 to the present day.

"The market's expectations of lower prices, as a result of lower nickel prices, may result temporarily in lower sales," Avesta said. It added that profit for 1989 ought to be about the same as last year, when it was SKr1.32bn.

UK COMPANY NEWS

Lighting up the road for a brighter future

John Griffiths on the changes taking place at Wipac since the management buy-in

FROM ITS prominent hilltop, the bleak, uncompromising factory complex of the Wipac Group glowers over the small country town of Buckingham like a 19th century satanic mill.

Even in the middle of the working day, its brooding, largely windowless buildings provide few signs that 365 employees, survivors from a much larger force in earlier decades, are toiling away.

Inside, the decor and fittings of management offices positively reek of the values and attitudes of an earlier, autocratic age, and entrenched resistance to change.

Until early last year, the buildings were telling no more than the truth: Wipac, a household name in parts and accessories to UK motorists for decades, had been slowly dying – unable to innovate; unable to adapt to the much stiffer quality, price and reliability standards being demanded of it by customers ranging from the vehicle manufacturers themselves to DIY car owners.

Mr Michael Robertson-Smith acknowledges the depressing nature of the place but has no intention of doing much about it – yet. The 41-year-old former managing director of Unipart Industries, a division of the formerly State-owned Unipart parts and accessories group, and his small management team have been far too busy turning Wipac around as a business since Mr Robertson-Smith organised a management buy-in, completed in January last year.

The buy-in, backed by Kleinwort Development Capital, ECI Ventures and Oranje Nassau Participatie, appears to have worked more quickly than even Mr Robertson-Smith, Wipac's chief executive, might have hoped: Wipac announced a 25 per cent increase in turnover to £10m in its first year under new ownership, and after six straight years of losses the company is now operating profitably, according to Mr Robertson-Smith.

As part of the buy-in, Mr Robertson-Smith's backers arranged for £1m in new investment to go into the company, and further substantial investment is envisaged. Mr Robertson-Smith claims that productivity has been stepped up by 15 per cent over the past 12 months and wastage cut by a quarter. He says, however, that most importantly, the company has regained the confidence – and contracts – of its single most valuable customer, Ford.

In the past few years, Ford has been drawing up increasingly stringent, formal quality standards for all its suppliers, and a crash quality programme at Wipac has enabled it once more to comply with them.

Indeed, Mr Robertson-Smith has introduced at Buckingham a quality-targeted interactive video communications system for the workforce based on the highly successful programme developed by Ford itself for its suppliers and employees throughout Europe.

Backing up Mr Robertson-Smith are manufacturing director Mr Alan Brown, 47, a former Ford executive involved in quality control, and finance director Mr Chris FitzGerald, 32, an accountant who had spent the previous three years with the military communications division of Plessey.

In keeping with latest component industry practice, each individual on Wipac's production lines is responsible for carrying out his or her own regular quality audits. It is indicative of the previous situation at Wipac that it is only in the past year that computer-aided design equipment has been installed, both to develop new products and to establish increasingly *de rigeur* direct electronic links with vehicle makers.

Wipac's core business has been – and remains – lighting equipment, air,fuel and oil filters, windscreen wipers and ingition equipment. Mr Robertson-Smith says the range will be expanded over the coming years. Furthermore, he points out that there are substantial new technology challenges coming up in area like lighting with which Wipac will have to rise to meet.

Wipac's management team – Alan Brown (left), manufacturing director, Michael Robertson-Smith, managing director, and Chris Fitzgerald, finance director.

Much of its lighting business is in the original equipment sector, supplying companies like Ford with head and signal lamps, rear light clusters and fog and driving lamps. All have their roots in the original company, set up in 1926 at north Acton, London, as the UK service arm of the Wico Electric Company of the US.

It was bought from its US parent in 1941 by the Jarman family and renamed the Industrial Magneto Company. The Wipac trade mark was established shortly afterwards, with the move to the purpose-built Buckingham premises coming in 1959.

It had remained a family-controlled company until the management buy-in, but had last made a profit in 1981 and "there had been seven years of deteriorating relationships with both the original equipment sector and the aftermarket", observes Mr Robertson-Smith.

It was possible to attract financial support for the buy-in because of Wipac's original equipment base, and because its name at least remained well known in the aftermarket. However, he makes clear, neither had appeared likely to survive much longer: "We spoke to the major OEs before buying to see if the situation was retrievable. They were very dissatisfied and looking to re-source some of the key components for which Wipac was, actually, a sole supplier. But they agreed to give us a short period to demonstrate what we could do".

The strategy that therefore evolved was to give maximum priority to meeting quality and delivery targets of the vehicle makers – rewarded with Ford granting Wipac preferred supplier status last October.

"We are now doing development work for a number of vehicle makers", says Mr Robertson-Smith. Quality was not the only problem – "when we took over we had a totally demoralised and in parts apathetic work force – they needed the job but had given up on the company. Consequently, we invested a lot of time and resources in making sure people understood that Wipac really was back on the road."

Employees were told that "ship it regardless" practices were at an end.

"We gave every operator the authority and responsibility to stop the production line they were unhappy about either the parts or the process.

"That was a culture shock and it cost us dearly in sales. But it put the stop on poor quality... Since then we've seen a total change in attitude and enthusiasm".

But despite the progress made to date, Mr Robertson-Smith acknowledges that "we're only about 30-40 per cent down the path we want to go".

Although there are too many people for Wipac's current *turnover*, Mr Robertson-Smith insists that the company's turnover will grow to accommodate them. He expects to be able to achieve £50,000 turnover per person per year, compared with £30,000 now and £23,000 at the time of the buy-in.

About 60-65 per cent of Wipac's turnover is in original equipment, and Mr Robertson-Smith wants to grow the aftermarket parts and accessories side to at least par with OE.

To this end, as well as being developed and expanded, Wipac's aftermarket ranges are in the process of undergoing a marketing re-launch with new packaging.

On the OE front, Mr Robertson-Smith accepts that survival, let alone expansion, is a difficult business for companies the size of Wipac in a motor industry which is in the process of globalisation.

However, he is optimistic that opportunities will arise for joint ventures and other collaboration with similar companies in Europe and even North America and Japan as the globalisation process proceeds.

The next three to four years should prove whether his optimism is justified – which is roughly the time-scale of a hoped-for Wipac flotation...

No firm alternative proposals on the table for Gateway

By Nikki Tait in London and Haig Simonian in Frankfurt

GATEWAY, Britain's third largest food retailer, yesterday declined to comment on mounting rumours that it may be seeking some sort of "white knight" escape route from the current £1.87m hostile leveraged bid being waged by the newly-formed Isosceles group.

"As far as I'm concerned, it is pure speculation," said chairman Mr Alec Monk yesterday of weekend press reports that West Germany's Tengelmann group could emerge as the white knight or, conversely, that US leveraged buyout specialists, Kravis Kohlberg Roberts, have bowed out of the situation.

Nevertheless, both Gateway and its advisers have said that various ideas had been put to the beleaguered group in the wake of the Isosceles bid, and it appears that several avenues have been – and are being – explored. But, as yet, Gateway is not believed to have received firm alternative proposals from any party.

Moreover, the Gateway camp – and presumably any rival bidder – is still awaiting publication of the revised offer document from Isosceles. The new terms, which provide a cash and paper alternative as the cash option of 210p per Gateway shares, were announced last Tuesday, but the formal document – described by the Isosceles camp as complex to prepare – has yet to emerge.

Tengelmann's name has circulated as a possible rival to Isosceles since the bid battle started. It is widely accepted that none of the main UK food retail groups could yet involved in the Gateway situation, even if they wished because of monopoly problems. The privately-owned West German retailing chain owned and run by Mr Eriwan Haub, has over 4800 stores around the world, with sales of just under DM35bn in the 1987-8 financial year, up from DM30bn the previous year.

The group has been interested in further foreign expansion, partly as a result of strict monopoly constraints in Germany and the very tough building legislation which has severely restricted its ability to set up new supermarkets.

'We will have to limit ourselves in West Germany and look increasingly for expansion abroad,' said Mr Haub at the group's press conference last December.

At present, Tengelmann generates about 57 per cent of its sales from foreign business, principally the US. Its largest foreign operation remains its 52 per cent holding in A & P, the US supermarket group, acquired in 1979.

Back on the bid front, meanwhile, Tuesday represents "day 39" of the offer, the last date on which Gateway can make new financial information available. Mr Monk has already said that he will write to shareholders, "demonstrating why 210p is inadequate."

Dissident voice at Chloride may arouse holders

By Nikki Tait

SHAREHOLDER discontent seems set to surface at the extraordinary general meeting of Chloride, the batteries group, this Friday. The meeting has been called to approve the sale of Chloride's motive power business to Compagnie Generale d'Electricite, for £55m.

Dr Maurice Gillibrand, a long-standing dissident voice at Chloride meetings and formerly chairman of the Shareholders Action Group – disbanded when the battery group *returned to the dividend list in* 1987 – said yesterday that letters have been sent to a number of Chloride's institutional shareholders. He added that he expects to meet The Prudential, ICI Pension Fund and M&G, the unit trust group, early this week.

Dr Gillibrand is critical of disposal of the motive power business, claiming that it represents the sale of the most profitable part of the company, and has been necessitated by the sharp rise in debt levels, "mainly as a result of two acquisitions in the USA". He points out that the "disappointing" performance by one of these, Altus, was given as one of the reasons for the drop in pre-tax profits from £18.2m in 1987-88 to "at least" £12m in the year to end-March.

Mr Ray Horrocks, chairman of Chloride, said in a document to shareholders last month, that he believes "there are limited prospects for further growth of the business in its current form" and that "the business would benefit from being part of a major group committed to investing further *in the sector*".

However, since announcing the motive power sale, Chloride has surprised the stockmarket – and appears to have added to shareholder disgruntlement – by announcing that it intends to cut the final dividend from 1.5p to 0.55p. It suggested that the decision had been made in the light of the forecast profits fall and the fact that sufficient cover did not exist.

Analysts have estimated, in the light of a very heavy tax charge, Chloride's earnings per share might be little more than 1p.

A question of compensation disclosure

Robert Rice on the secrecy surrounding the recent pay-off to the chairman of Next

THE REFUSAL by the Next board to reveal the size of the compensation payments made to Mr George and Mrs Liz Davies, who were ousted from the retail group last December, has led to a certain amount of indignation and concern among shareholders.

It also poses the question of what obligations there are on companies to make public such information. For in contrast to Next's secrecy, many British businesses publish details of compensation payments, usually in a footnote to the annual report.

For example, Blue Arrow, the employment group, was perfectly prepared to reveal that it paid £1.15m to Mr Tony Berry when he was ousted as chief executive in January.

The short answer is that this is a grey legal area and that much depends on the precise circumstances in which a director leaves a company, as the history of the Next case shows.

The issue was raised at Next's recent annual meeting by Mr Murray Gordon, chairman of Era Group, and, until its takeover by Next, chief executive of Combined English Stores.

In response to his inquiry, Next said settlement payments had been made to Mr Davies, the former chairman of the company, and his wife, who had been product director, but the amount could not be disclosed because it was the subject of a confidentiality agreement.

Concerned about the accountability of directors, and feeling that shareholders' rights were somehow being trampled on, Mr Gordon, and Mr Pat Hammond-Turner, a former assistant managing director at CES, voted unsuccessfully against the re-election of the Next board.

But on Friday Mr Gordon said he had no plans to take the matter further. He had spoken after the meeting to Mr David Jones, Next's chairman, who had been able to reassure him about the deal. By all accounts, he said, the Next board had done a pretty good deal and the settlement to Mr and Mrs Davies was low.

This view was echoed by Mr Robin Althans, an analyst with Kitcat & Aitken, who said he had a hunch that the confidentiality agreement was designed to protect Mr Davies rather than the Next board.

The question of compensation normally only arises in connection with the termination of a director's service contract. Removal from the board does not by itself give rise to a claim, although it may put the company in breach of the director's contract.

The basis for a settlement is that the director should be compensated for what he would have earned during the remaining period covered by his contract, less what he actually earned or would be expected to earn during that period. Mr Davies, for example, was clearly a highly employable businessman, as demonstrated

George and Liz Davies, who were ousted from the board of Next last December

by his recent deal with Asda, the supermarkets group.

But what rights, if any, do shareholders have to be informed of the size of any compensation payment made?

The companies legislation states that it is unlawful for a company to make any payment to a director by way of compensation for loss of office, or as a consideration for his retirement, without particulars of the proposed payment, including the amount, being disclosed to, and approved by, the shareholders.

However, this does not apply to any bona fide payment by way of damages for breach of contract or by way of pension in respect of past services. It is on this basis that some companies have not put compensation payments to shareholders for approval.

Why then do some companies tell their shareholders the terms of compensation settlements? Is it simply a matter of good practice and shareholder relations?

Possibly the answer lies in section 320 of the 1985 Companies Act which prevents companies from entering into any arrangement to acquire from a director a non-cash asset which exceeds £50,000 or, if less, 10 per cent of the company's asset value without shareholders' approval.

For this purpose, acquiring a non-cash asset includes discharging a person's liability and arguably even that of the company itself. So a compensation payment exceeding £50,000 would be caught unless it had prior approval by a resolution of the company in general meeting.

If such a payment was made without shareholder approval then the directors might find themselves personally liable to repay the money to the company.

Section 320 may not have been designed to catch bona fide compensation payments. But would it give Next shareholders, if they chose to pursue it, the leverage they would need to force disclosure of the Davies payments? And could the shareholders hold the directors personally liable to repay the money, if the payment could not be retrospectively approved by the company in a general meeting?

Perhaps. But then again perhaps not.

Much would depend on the circumstances of Mr and Mrs Davies' departure. The section 320 provisions on shareholder approval only apply where an agreement is reached between the two sides on compensation. They certainly do not apply where the issue goes to court and an award of damages is made.

More importantly, it is arguable they also do not apply if the director was dismissed from the board, and his executive functions and the payment was expressed as an out-of-court settlement to a claim, or the threat of a claim for damages for wrongful dismissal.

This is because the provisions apply only to payments to directors and, if the person has ceased to be a director, they do not operate. Any collusion between the two sides to get around the requirement for shareholder approval in this way could invalidate the payment, however, although it might be difficult to prove.

What were the circumstances of Mr and Mrs Davies' departure? By all accounts news of their imminent downfall was relayed to them out of the blue *late one night last* December.

If this was the case, it would seem perfectly plausible for the Next directors to argue that they were not obliged to seek shareholders' approval for the compensation settlement, because it was reached after Mr and Mrs Davies had ceased to be directors, and was made on an out-of-court basis in the light of their threat to sue the company from here to eternity and back for breach of contract.

If the settlement was valid, so too was the confidentiality agreement relating to it, excusing the board from any requirement to disclose to shareholders the size of the payment.

But the issue is certainly one which could exercise rival lawyers for hours.

Evolving Polly Peck seeks new listings

By John Thornhill

POLLY PECK International, the agricultural, electronics and textiles group, headed by Mr Asil Nadir, which was reported to have been hit by a boardroom row, is to seek stock market listings in continental Europe.

Polly Peck yesterday played down a newspaper report of boardroom disagreements following the dismissal of five head office personnel two weeks ago.

A spokesman for the company said: "There is no boardroom split and it seems to us that too much has been made of these internal re-arrangements. As the company evolves into a greater global entity it is right that the management should evolve with it."

Polly Peck is seeking listings on the Basle, Geneva, and Zurich stock exchanges through the placing of up to 2.5m shares, representing 1 per *cent of its total share* capital.

Polly Peck said it was planning to develop its presence in international debt and equity markets in order to match the increasingly global nature of its manufacturing and trading operations.

This will be the company's first listing in continental Europe although Polly Peck already has an ADR facility in the US and a publicly-quoted Hong Kong subsidiary, in *which it holds a 70 per cent* stake.

The listing follows six Polly Peck bond issues made in the Swiss market since 1987, which, the company believes, has raised its profile among the Swiss investment community.

The placing is to be managed and underwritten by S. G. Warburg Soditic, the Swiss arm of the UK merchant bank.

Varley explains Coalite strategy

By David Waller

Mr ERIC Varley, the former Labour minister who is now chairman of Coalite, yesterday set about defending his company's strategy in the face of a £427m bid from Anglo United, a much smaller company which is also based in Derbyshire.

The thrust of the argument from Anglo is that Mr Varley and his management team have been misguided in devoting their time and the company's resources to a host of non-core businesses when they should have been concentrating on the core businesses of fuel manufacture and distribution.

Mr Varley defended his company's involvement in quarrying, waste management, vehicle distribution and building supplies. "We would be delinquent in our responsibilities to our shareholders if we didn't have more than one leg, particularly when we are heavily exposed to the declining fuel industry," he said.

He acknowledged that group earnings per share growth had been flat over recent years, but argued that the record would have been a lot worse had the company not chosen to invest much of the cash generated from energy and chemicals in the growth areas.

"To concentrate on coal would be madness," he said, challenging Anglo's plans to merge together its fuel business with that of Coalite, selling off all the other activities in order to pay off the debt incurred on the deal.

Mr Varley further contended that the energy business had not been neglected, with the company's market share rising despite a decline in the market overall.

He reiterated his point that the bid was opportunistic and claimed that Mr David McErlain, chairman of Anglo, had been singing Coalite's praises when he first approached Mr Varley in December last year with a view to recommending an agreed deal, perhaps to be effected via a takeover of Anglo by Coalite.

Salvesen contract at Safeway

By John Thornhill

CHRISTIAN Salvesen, the Edinburgh-based food distributor, has won a management contract to run a retail distribution centre at Bellshill, Glasgow, for Safeway, the supermarket group.

The contract, which will initially run for five years, is understood to be worth several hundreds of thousands of pounds.

Safeway is currently building the 500,000 sq ft warehouse on a 42 acre site on the Bellshill Industrial Estate. The first stage of this development will open in September 1989 creating 163 jobs. This will rise to 500 jobs when the site becomes fully operational in the summer of 1990.

Tranwood associate in £2.5m subscription plan

By Vanessa Houlder

ANALYSIS, an unquoted associate of Tranwood, the USM-traded financial services houses, has launched a £2.5m offer for subscription. The offer, which capitalises the company at £11.13m, follows a £3m institutional placing completed last week.

The company, which operates an on-screen financial information service, said it would apply for its shares to be traded on the Third Market as soon as practicable.

At the start of the year, Analysis launched a service, including information from accounts, stock exchange announcements and press cuttings on UK quoted companies.

The company is offering 10m shares at 25p each, which capitalises it at £11.13m. The offer is sponsored by Cambridge Capital and Ariel UK and has been underwritten by Tranwood Earl, the corporate finance arm of Tranwood Group. Application lists are expected to close on June 23.

The company made a pre-tax loss of £2.57m for the nine months ended March 31, when it had net assets of £426,000.

The proceeds of the placing and offer, which amounts to about £5.1m will be used to meet working capital needs and for acquisitions. It has also announced the purchase of Graphite Investments, a share price information service for an initial £10,000. After the placing, Tranwood will hold 27.8 per cent.

SHARE STAKES

Property Trust: Gillon Holdings sold 150m ordinary shares and no longer has a notifiable interest.

Smith (WH): Prudential Corporation reduced holding to 10.11m 'A' ordinary shares (5.98 per cent) by sale of 50,000.

Spectrum Group: M Stern disposed of 200,000 ordinary and holding now 1.22m (7.1 per cent).

Stormgard: Henderson Administration holds 43.46m shares (15.07 per cent).

Suter has purchased 350,000 of its shares at 194p, bringing cumulative purchases to 6.53m.

Throgmorton Trust: Equitable Life Assurance bought 4.63m ordinary shares and holds 27.4m (9.78 per cent). Prudential Corporation sold 10.55m and holds 20.2m (7.21 per cent).

Unigroup: KH Yeoh has converted his holding of 1.14m redeemable preference shares into a like number of ordinary. Interest in the ordinary now 3.32m shares (22.3 per cent).

Wates City of London Properties: PC Wates, director, bought 50,000 ordinary at 185p each. Beneficial interest now 7m shares (5.77 per cent).

Williams Holdings: Scottish Widows Fund and Life Assurance owns 16m ordinary (5.27 per cent).

Edbro rises 45%

Edbro, engineer, lifted profits 45 per cent to £4.2m in the year to March 31 on sales up 19 per cent to £31.5m. A final dividend of 8p makes 11p (9p).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interim- Telecomputing.
Finals- British Land, Builder, Leigh Interests, Normans, Sheraton Secs.

FUTURE DATES

Interims-

BBA	Aug. 1
KLP	June 12
Finals-	
Cohen (A)	June 12
Hanover Druce	June 8
M & G Second Dual Trust	June 14
TGI	June 14
Warburg (SG)	June 13
Wiggins	June 30

FINANCIAL TIMES STOCK INDICES

	Jun 2	Jun 1	May 31	May 30	May 26	May 25	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs.	84.61	84.88	85.43	85.88	86.20	86.06	89.29	84.61	127.4	49.18
Fixed Interest	96.23	96.37	96.94	96.92	96.91	96.87	99.59	95.93	105.4	50.53
Ordinary	1745.5	1745.6	1755.7	1765.3	1778.8	1777.3	1837.5	1447.8	1926.2	49.4
Gold Mines	171.4	171.5	173.5	172.6	171.2	170.4	196.1	154.7	734.7	43.5
FT-Act All Share	1084.39	1085.59	1091.06	1098.99	1103.81	1100.44	1131.41	921.22	1238.57	61.92
FT-SE 100	2102.6	2103.4	2114.4	2130.0	2140.3	2136.6	2204.7	1782.8	2443.4	986.9

DIARY DATES

PARLIAMENTARY

Today

Lords: Electricity Bill, committee.

Motion on Magistrates Courts (Remands in Custody) Order.

Tomorrow

Commons: Employment Bill, conclusion of remaining stages.

Pesticides (Fees and Enforcement) Bill, conclusion of remaining stages.

Opposed private business.

Lords: Water Bill, report.

Licensing (Amendment) Bill, committee.

Select committees: Home Affairs: subject, annual report of the Police Complaints Authority. Witnesses: Association of Chief Police Officers and the Police Federation. (Room 15, 4.0 p.m.)

Employment: subject, Legionnaires Disease. Witness: chief environmental health Officer, Richmond-on-Thames. (Room 20, 4.30 p.m.)

Wednesday

Commons: Opposition debate on a subject to be announced.

Motion on Treatment of Offenders and Community Service Orders for Northern Ireland.

Lords: Debate on the case for Britain's full participation in a fully integrated European Community.

Debate on homelessness.

Question to Government on selection of new radar system for the European Fighter Aircraft.

Select committees: Defence: subject, Type 23 frigate orders and repair of HMS Southampton. Witness: Admiral Sir Julian Oswald, Chief of the Naval Staff. (Room 16, 10.50 a.m.)

Foreign Affairs: subject, Hong Kong. Witness: Sir David Wilson, Governor of Hong Kong. (Grand Committee Room, Westminster Hall, 10.30 a.m.)

Agriculture: subject, the new beef premium. Witnesses: Agriculture Ministry, Department of Agriculture for Northern Ireland, Meat and Livestock Commission. (Room 20, 10.45 a.m.)

Trade and Industry: subject, British Shipbuilders. Witnesses: Mr John Lister, chairman, and Mr Tony Newton, Industry Minister. (Room 15, 10.45 a.m.)

Employment: subject, part-time work. Witnesses: Employment Department officials. (Room 18, 4.15 p.m.)

Home Affairs: subject, drug trafficking and related serious crime. Witnesses: Customs and Excise Officials. (Room 18, 4.15 p.m.)

Public Accounts: subject, the Next Steps initiative. Witness: Mr Peter Kemp, Cabinet Office. (Room 16, 4.15 p.m.)

Transport: subject, London Regional Transport. Witnesses: chairman and officials. (Room 17, 4.30 p.m.)

Thursday

Commons: Debate on the Army.

Lords: Antarctic Minerals Bill, Brunei (Appeals) Bill and Parking Bill, third readings.

Water Bill, report.

Control of Smoke Pollution Bill, committee.

Friday

Commons: Private Members' motions.

Lords: Dock Work Bill, second reading.

Trade Fairs and Exhibitions: UK

June 6-8
Enterprise and the North West - Opportunities for Action Conference and Exhibition, (01-642 7688)
G-MEX Centre, Manchester

June 6-9
Screen Print and Screen Print Wear '89 (01-340 3291)
NEC, Birmingham

June 8-18
Fine Art and Antiques Fair (01-385 1200)
Olympia

June 11-14
Business to Business Exhibition (01-729 0677)
Business Design Centre, London

June 12-15
INTERKNIT/INTERWEAVE Exhibition (0533 544017)
NEC, Birmingham

June 14-16
Electrical Products Exhibition (01-385 1200)
Olympia

June 21-23
Personal Investment Marketing Show (01-948 5166)
NEC, Birmingham

June 30-July 2
Select Investment Show (06333 76626)
Southampton

July 3-6
Royal Show (0203 696969)
Kenilworth

July 4-6
Fluid Power and Transmission Exhibition - FLUIDTRANS (0923 226210)
Olympia

July 11-13
International Advanced Material & Process Engineering Exhibition and Conference (04868 21231)
NEC, Birmingham

Overseas Exhibitions

June 9-18
International Air Show (01-225 5566)
Paris

June 19-23
International Wine, Spirits & Equipment Exhibition - VINITECH-VINEXPO (01-225 5566)
Bordeaux

June 20-25
International Building and Construction Exhibition (045382 8989)
Beijing

June 25-28
International Fancy Food and Confection Show (01-940 3777)
Atlanta

June 27-29
International Express & Courier Services Exhibition and Conference (0420 87368)
Brussels

July 6-8
International Professional Broadcasting Recording Public Address Exhibition - PRO AUDIOASIA (0494 729406)
Hong Kong

Business and management conferences

June 5-6
Business Research International: Structuring and financing acquisitions (01-637 4383)
Cafe Royal, London

June 5-6
The British Institute of Energy Economics: Fourth annual North Sea conference (01-897 3707)
Whitehall

June 5-9
Management Training Consultants: Techniques of supervisory and management training for trainers (0533 527062)
Leicester

June 5-6
Acquisitions Monthly: Strategic alliances - an alternative way ahead (01-823 8740)
Inn on the Park, London

June 6-7
Financial Times Conferences: Commercial aviation and aerospace - Towards the year 2000 (01-925 2323)
Paris

June 8-9
IBC: Spain - the new benefit environment (01-236 4080)
Hotel Melia, Madrid

June 9
The Economist: Honouring the business experts: a seminar with Peter Drucker (01-839 7000)
Royal Garden Hotel, London

June 9
CBI Conferences: Employment law - The latest proposals and impending legislation (01-379 7400)
Centre Point, London

June 12-13
International Business Communications: The brand new product development conference for Europe (01-236 4080)
Gloucester Hotel, London

June 15
Cambridge Publications: Planning issues for Cambridgeshire in the 1990's (0954 31984)
New Hall College, Cambridge

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

FINANCIAL

TODAY
COMPANY MEETINGS-
Executex Clothes, Queens Hotel, City Square, Leeds, 11.30
Hadon MacLellan, Le Meridien Hotel, 21, Piccadilly, W., 12.00
Howden-Stuart, Copthorne Hotel, George Square, Glasgow, 12.00
Lamont Hldgs., Caledonian Hotel, Princes Street, Edinburgh, 12.00
Perry Grp., Savoy Hotel, Strand, W.C., 12.00
Telfos Hldgs., Ironmongers Hall, Barbican, E.C., 12.00
BOARD MEETINGS-
Finals:
British Land
Leigh Interests
Normans
Sheraton Sec.
Interims:
Telecomputing
DIVIDEND AND INTEREST PAYMENTS-
Allied Partnership Group 1p
Aspen Comms. 4.5p
BHH Group 2.75p
Beckman (A.) 1.95p
Billam (J.) 2.4p
Boeing Co. 45cts.
British Aerospace 13.2p
Cannon Street Invs. 3p
Electrolux B Sk11.5
Enserch Corp. 20cts.
European Leisure 8p
GMAC, Australia (Finance) 12¼% Nts. 1991 & 125pc.
Gillette Co. 24cts.
Highland Distilleries 0.95p
IBM Credit Corp. Flg. Rate Yen-linked Nts. 4/12/95 $473.98
Kleinwort, Benson Group 8.7p
Lockheed Corp. 45cts.
Lyles (S.) 1.5p
Rockwell Intl. Corp. 19.5cts.
Rolls-Royce 4.2p
St. Ives Group 1.25p
Scottish TV 15.25p
Sweden (Kingdom of) 10⅝% Nts. 1998 5.3125pc.
Telfos Hldgs. 5p
Tudor 4.5p
Turriff Corp. 8p
Ultramar 6p
TOMORROW
COMPANY MEETINGS-
Antofagasta Hldgs., Great Eastern Hotel, Liverpool Street, E.C., 11.00
Aquascutum Grp., 100, Regent Street, W., 12.00
Atlas Converting Equipment, 4, Broadgate, E.C., 12.30
Bank of Scotland, The Mound, Edinburgh, 12.15
Boot (Henry), Baldwin's Omega, Brincliffe Hill, Sheffield, 12.00
Expedier Leisure, Cafe Royal, 68, Regent Street, W., 12.00
Higgs & Hill, Howard Hotel, Temple Place, Strand, W.C., 11.00
Pentos, Cafe Royal, 68, Regent Street, W., 12.00
Quicks Grp., Centre House, Ashburton Road East, Trafford Park, Manchester, 11.00
Ropner, 140, Coniscliffe Road, Darlington, 12.30
Tarmac, Hyde Park Hotel, 66, Knightsbridge, S.W., 12.00

Parkdale Hldgs. 1.9p
Prudential Corp. Flg. Rate Nts. 1995 £330.19
Racal-Chubb 8% Uns. Ln. 92/95 4pc.
Do. 8½% Uns. Ln. 87/92 4.25pc.
Tilbury Group 13.9p
THURSDAY JUNE 8
COMPANY MEETINGS-
Anglo-Eastern Plantations, 7, Bedford Square, W.C., 12.30
Davies & Newman, Glaziers Hall, 9, Montague Close, London Bridge, S.E., 12.00
Etam, Barber-Surgeons Hall, Monkwell Square, E.C., 12.00
Helical Bar, Park Lane Hotel, Piccadilly, W., 10.30
BOARD MEETINGS-
Finals:
Boots
British Gas
Broadwell Land
Coalite
Finlay (James)
Hanover Druce
Hunter Saphir
ITL Information Technology
NMC
New Throgmorton Tst
Oxford Instruments
Phoenix Timber
600 Grp.
Shelchley
THORN EMI
Yale & Valor
Interims:
Flexello
Johnson & Firth Brown
Powerscreen Intl.
VPI Grp.
DIVIDEND AND INTEREST PAYMENTS-
Arab Banking Corp. (B. S. C.) Flg. Rate Nts. 2000 $477.12
Bank of Ireland Und. Flg. Rate Prim. Cap. Nts. $283.14
British Island Airways 0.2p
Chase Manhattan Corp. Flg. Rate Nts. 2009 $281.94
Chepstow Racecourse 1p
Dubeminster 1.125p
Epwin Group 3.7p
Hongkong & Shanghai Banking Corp. Prim. Cap. Und. Flg. Rate Nts. 2nd Ser. $131.77
Mer Finance (Cayman) Gtd. Flg. Rate Serial Nts. 1989 £498.24
Reed Intl. 5% Red. Prf. 1.75p
Do. 7% Red. Prf. 2.45p
Svenska Cellulosa AB Ser B Sk7.25
FRIDAY JUNE 9
COMPANY MEETINGS-
AMEC, Holiday Inn Crowne Plaza Midland Hotel, Peter Street, Manchester, 12.00
Belhaven, New Connaught Rooms, Great Queen Street, W.C., 11.00
Computer People Grp., Mountbatten Hotel, Monmouth Street, Covent Garden, W.C., 10.00
Dewhirst (I.J.), Merchant Taylors Hall, Aldwark, York, 12.00
House of Lerose, Metropole Hotel, National Exhibition Centre, Birmingham, 12.00
Lanca, Faril House, Faraday Court, Crawley, West Sussex, 2.30
Martin Currie Pacific Tst., 29, Charlotte Square, Edinburgh, 12.30

CONSTRUCTION CONTRACTS

Glasgow shopping centre

SIR ROBERT McALPINE CONSTRUCTION MANAGEMENT has been appointed construction manager for the £100m Buchanan Centre, a shopping development in Glasgow, being undertaken by the Buchanan Centre Partnership formed between Bredero Properties and Grosvenor Square Properties.

Occupying a 3 hectare city centre site, the development will be bounded by Killermont Street, North Hanover Street, Cathedral Street, Dundas Street, Buchanan Street and Glasgow's new Concert Hall on Sauchiehall Street.

The Buchanan Centre will contain about 50,000 sq metres of retail space plus covered malls, atria, service areas, service corridors and a five-storey car park, the upper level of which will link with rooftop parking over the shopping area to provide parking for 1500 cars.

At the northern end of the centre, John Lewis will have a 25,000 sq metre department store on five levels, and other stores and shops will occupy the shopping mall extending to the southern end of the centre along Buchanan Street.

Construction of the centre will be principally of reinforced concrete frame. The Buchanan Street elevations and the John Lewis store elevations to Killermont Street will be principally of stone and glazing. This will include glazed feature entrances and the Buchanan Street frontage will incorporate a full height glazed atrium facade, giving visibility of various shopping levels to the exterior approaches at the southern end.

The Dundas Street facade will incorporate facing brickwork together with stonework and the elevation on to the main British Rail cutting will be mainly brickwork.

The multi-storey car park will be faced with a predominance of brickwork and limited stonework to provide design variations.

Work will include rock excavation and bridging over a main British Rail cutting and Cathedral Street. The project is due for completion in just under three years.

Country club and hotel at Loch Lomond

HALL & TAWSE GROUP has nearly £25m worth of orders

Work has begun on a £5.5m hotel and country club for Craigendarroch at Cameron Park, Loch Lomond.

In Tulloch, Perth, work has started on the first 56 unit phase of a £12m domestic refurbishment project. This involves refurbishment of seven blocks of flats built in the 1930's. As well as providing over 400 homes - a mix of private housing, housing co-operative and housing association homes - the 3½-year project will provide jobs and training in an area of high unemployment.

"Fast track" construction is to be used to build a stores and warehousing complex worth over £1m for British Gas at Chesterton, Staffordshire.

Over £13m worth of partnership and joint venture housing has also been won by Hall & Tawse in the south of England, along with a £6m contract to build the new civic offices for Test Valley Borough Council.

IDC, part of the AMEC Group, has been awarded a guaranteed maximum price contract of £11m for work at the Bridgend factory of Sony (UK). Work includes a two-storey extension to provide 10,000 sq metres manufacturing space, as well as offices and plant services. There will be a separate energy centre and effluent treatment plant.

New HQ for Pearl

WIMPEY CONSTRUCTION UK is to build new corporate headquarters for Pearl Assurance in Peterborough at a cost of £71.5m. Work starts on June 19, for completion by the end of 1991.

To be built on a 24-acre riverside site at Lynch Wood, the new 400,000 sq ft office will house over 2,000 staff. Three main offices, computer, training and restaurant areas, will be built around a courtyard and linked together. The main building will be of three storeys, and all will be air-conditioned, and equipped for computers and office technology systems.

Jones wins £25m orders

J.M. JONES CONSTRUCTION GROUP has won contracts worth more than £25m. The orders span a variety of buildings, including speculative office developments, hi-tech industrial, retail and even ecclesiastical, (in the form of an extension to Christchurch, Woking) and include refurbishment as well as new build projects.

The largest is valued at £8.7m for an 89,000 sq ft speculative four-storey office development for Grosvenor Square Properties Group on a 2.5 acre site on London Road, Bracknell. Work has started, for completion in November 1990.

Longs of Bath, a subsidiary, was chosen by Littlewoods to refurbish a three-storey retail unit in the centre of Bath which it has acquired from Woolworth Holdings. Worth £3m, the work is to be completed in 16 weeks.

In High Wycombe J M Jones has won a £2.2m contract to fit out a 43,000 sq ft retail unit for Littlewoods in the Octagon Centre. A "fast track" contract of 12 weeks will ensure that work is completed by mid-August.

Other projects include construction of seven two-storey office blocks in Poole in a contract worth £3.3m. The scheme is a joint venture between J M Jones Group's development wing, Markham Developments, and Marley Properties.

Extending Royal Marsden Hospital

ALFRED McALPINE CONSTRUCTION is to build an £8.4m extension to the Royal Marsden Hospital, London. The four-storey building with undercroft will be erected around the chapel, and will fill the courtyard at the rear of the main block. The 60,000 sq ft building will provide four operating theatres, recovery area, theatre reception, store, changing area, improved catering facilities, and two wards for head and neck, and gynaecology patients.

Rebuilding Scottish barracks

M.J. GLEESON GROUP is to reconstruct Dreghorn Barracks at a cost of over £20m for the Property Services Agency (Scotland). It was built on the outskirts of Edinburgh in 1940.

The upgrading works start in June, are scheduled to take 32 months to complete, and involve demolition, refurbishment and a range of new-build construction.

Among existing buildings to be altered and extended will be the guard house, battalion HQ, band building, estates office, Sandhurst block, and armoury.

At the same time, Gleeson will construct mess facilities for officers, sergeants and junior ranks; community, education, recreational, medical, and training centres; junior ranks' living accommodation; social club (NAAFI); sports pavilion; and various stores and minor buildings.

Sports centre at Berkhamsted

LOVELL CONSTRUCTION has been awarded a £3.8m design and build contract for a sports centre at Berkhamsted, Herts, for Dacorum Borough Council.

The centre will include a 25 metre swimming pool, three squash courts, a multi-purpose sports hall and a fitness room providing multi-gym equipment.

Outside facilities include a flood-lit, all-weather synthetic surface playing area for 5-a-side soccer, hockey, netball and tennis.

Parking will be provided for some 90 cars including spaces for the disabled.

The two-level building will be of steel-frame construction clad in profiled aluminium sheeting with a single pitched steel sheet roof.

Work starts this month with completion by autumn 1990.

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Abbey Unit Tst Mngrs (1000)H						
80 Holdenhurst Rd, Bournemouth						0345 717373
High Income						
American Income	6	54 58	55 15	58.68	4 67	40000
Gilts & Fixed Int	6	109 0	109.0	115 6	8 65	40001
High Inc Equity	6	130.6	133 4	142.0	4.47	40002
Worldwide Bond	6	197 7	197.7	209.5	4.63	40003
Capital Growth						
American Growth	6	189.5	191.4	203 7	1 22	40004
Asian Pacific	6	100.2	100.2	107.3	0 65	[illegible]
Assets & Earnings	6	157 6	157 6	168 6	1 54	[illegible]
Capital Reserve Acc	0	84 84	84 84	84 91	4 71	[illegible]
Commdty & Energy	6	99 30	99 30	106 3	0 99	[illegible]
1992 Enterprise	6	57.17	58 33	62.06	2 90	[illegible]
European Capital	6	85 04	85 63	91 10	0 82	[illegible]
General	6	173.6	176.7	188.0	2.39	[illegible]
International		47 0	47 0	50 0	2.00	–
Japan	6	108 8	108.8	116.4	0 00	40011
Mastertrust	6	85 62	85 62	91 58	1 56	40012
UK Growth Acc	6	200 5	208.5	221.9	1.01	40013
UK Growth Dist	6	133 7	139 1	148 1	1.52	40014
US Emerging Cos	6	57.16	58.84	62.60	0.00	40015
Income & Growth	6	285 00	291 4	310.1	3.31	40016
Ethical	6	48.36	49 63	52.80	2.37	40017
Abtrust Management Ltd (1000)H						
10 Queens Terrace, Aberdeen AB9 1QJ						0800 833580
Amer Inc & Growth	5	31.13	31 13xd	33.24	3 43	[illegible]
European	5¼	62.88	63.05	67 30	0 00	40025
European Income	5¼	63 34	63 34xd	67 62	3.15	41377
Exempt	1	793 6	793.6	828.3	2 31	[illegible]
Extra Income	5	41.98	41 98xd	44 82	5.11	[illegible]

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
CCL Unit Trusts Ltd (1400)F						
74 Shepherds Bush Green, W12 8SD						01-740 7070
UK General Tst	5½	53 46	54.35	58.13	2 70	40217
Global Tst	5½	43 26	43 75	46.79	2.30	40218
Recovery Tst	5½	52.49	54 68	58 17	1.92	40219
CIBC Unit Tst Managers plc (1200)H						
Cottons Ctr, Cottons Lane, Ldn. SE1 2QL						01 234 6000
Growth Fd Acc	5	105.3	106 7xd	112.6	3 34	40220
CS Fund Managers Limited (1000)F						
125 High Holborn, London WC1V 6PY						01-242 1148
CS America H	5	61.56	61.56	65 46	0.67	40221
CS International	5	55 79	55 79xd	59.35	1.90	40222
CS Japan	5	123 9	123.9	131.8	0.34	40223
CS Portfolio Inv	5	71.64	71.64xd	76.21	1.48	40224
Canada Life Unit Tst Mngrs Ltd (1200)F						
2-6 High St, Potters Bar, Herts						0707 51122
Can Gen Dist	5	137 4	142.4	149.9	3 09	40225
Do Gen Accum	5	229 1	237 6	250 1	3 09	40226
Do Income Dist	5	92 39	96 14xd	101.2	5.57	40227
Do Inc Accum	5	211 7	220 3	231 9	5.57	40228
Gilt & Fxd Int	5	35.62	35.68	37 56	8.55	40229
Cannon Fund Managers Ltd (0700)H						
1 Olympic Way, Wembley, HA9 0NB						
01-902 8876. Dealing 0800 282621						
Growth	5¾	37 85	37 85	40 48	2.50	40230
Income	5¾	47 65	47 65	50.96	4 03	40231
Far East	5¾	36 96	37.45	40.05	0.05	40232
North American	5¾	35.97	36.54	38.87	1.85	40233
Global	5¾	51 68	52 60	55.96	1 75	40234
European	5¾	53 14	53 64	57 37	0.94	40235
Japan	5¾	104.2	105.0	112.3	0 01	40236
Intl Currency Bd	5¾	42.85	42 85	45 43	6 60	40237
Strategic Opps	5¾	53 55	53.55xd	57 27	1 27	46257
Capability Trust Mngrs Ltd (1200)F						
Admin, 5 Rayleigh Road, Hutton, Brentwood, Essex						
Enquiries 0277 227300 Dealing 0277 261010						
American & Gen	5	77 41	77.41	82 35	1 48	41562
(Accum Units)	5	80 82	80.82	85.98	1 48	41563
European Inc	5	54.15	54 32	57.79	0 67	41572
(Accum Units)	5	54 82	55 01	58.52	0.67	41573

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Merlin Jupiter Unit Tst Mgmt Ltd (0905)F						
197 Knightsbridge, London SW7 1RB						01-581 3020
Merlin Intl	5	56.88	58.36	61.43	1.91	40914
Ecology	5	58 97	60.69	63.88	1.77	40067
Metropolitan Unit Trust Mngrs Ltd (1000)F						
3 Darkes Lane, Potters Bar EN6 1AJ.						0707 45184
Eurogrowth Plus	6	57 13	57.78xd	61.47	0 77	[illegible]
Global Growth	5¼	44.39	44.39	47.22	0.53	[illegible]
Global Income Acc	5¼	57.71	58.25xd	61.97	3.23	[illegible]
Do Income	5¼	54.05	54 67xd	58.05	3.45	[illegible]
Sunrise Accum	6	56 84	58.10	61 81	0 00	[illegible]
UK Growth Acc	5¼	55.48	56.71	60.33	1.66	[illegible]
UK Income Acc	5¼	68.46	70.51	75.01	4.00	[illegible]
Do Income	5¼	64.44	66.37	70.61	4.25	[illegible]
Midland Unit Trusts Ltd (1200)F						
192 Eyre Street, Sheffield, S1 3RD						0742 [illegible]
British Tst	6	56.17	56.50	59.36	2.34	[illegible]
(Accum Units)	6	56 07	56 41	60.33	2.34	[illegible]
Capital	6	118.9	118 9	127 2	1.97	[illegible]
(Accum Units)	6	170 3	170.3	182.1	1.97	[illegible]
European Growth	6	122.6	122.6xd	130 6	0.39	40965
(Accum Units)	6	150 9	151 0	160 8	0.39	[illegible]
Extra High Inc	6	70.32	71.37	76.33	6.41	[illegible]
(Accum Units)	6	94.94	96.31	103 0	6.41	40968
Gilt & Fxd Int	4	50.03	50 04	52.23	8.92	40969
(Accum Units)	4	100 4	100 4	104.7	8.92	40970
High Yield	6	202.1	204.9xd	219.1	5 00	40971
(Accum Units)	6	389 4	394 8	422.2	5.00	40972
Income	6	236 6	239.4	256.0	3.54	40973
(Accum Units)	6	420 7	425.6	455.2	3.54	40974
Intl High St UT	6	54.40	54.41	58.19	1 63	40975
(Accum Units)	6	56.08	56 08	59.98	1.63	[illegible]
Japan Growth	6	382.6	382.7	409.5	0.00	40977
(Accum Units)	6	402.2	402.2	430 4	0.00	[illegible]
Mandarin Tst	6	58.24	58.26	62.31	0 76	[illegible]
(Accum Units)	6	58.72	58.74	62.82	0.76	–
Mngd P'folio Acc	6	69.37	70.08	74 95	1.65	40979
Money Market UT	4	49 04	49 04xd	50.99	[illegible]	–
North American	6	124 6	124.6xd	133.3	0.39	40980
(Accum Units)	6	153.8	153 8	164.5	0.39	[illegible]
Smaller Cos	6	183 0	183.1	195.8	1.30	[illegible]
(Accum Units)	6	202 9	203 0	217.1	1.30	[illegible]
Meridian Income	6	107 1	108.0	115.5	3.72	[illegible]
(Accum Units)	6	109.8	110.7	118.40	3.72	[illegible]
Meridian Growth	6	115.3	116.0	124.1	1.52	[illegible]
Midland Personal Pension Unit Trust *						
British	6	55.71	56 34	59.94	2.34	[illegible]
European Growth	6	55.94	56 03	59.61	0.39	46497
Gilt & Fixed	6	49 16	49 16	52 30	8.68	[illegible]
Income	6	52 88	53.76	57 19	3.61	46499
Japan Growth	6	56.09	56.44	60 04	0.00	46500
Managed	6	54 61	55.45	58.99	1 65	[illegible]
Money Market	6	52 26	52.26	55.39	10.82	[illegible]
North American	6	58.23	59 36	63.15	0.39	46503

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Pembroke Administration Ltd (1700)F						
18-19 Sandland St, London WC1R 4PZ.						01-430 0556
Pembroke Accum	5	80.72	82.85	87 82	0.00	41128
Perpetual Unit Tst Mngmt (1200)F						
48 Hart Street, Henley on Thames						0491 576868
International Grth	5¼	331.13	331.13	354 15	1.44	41129
Income	5	236.19	236.19xd	252 61	4.03	[illegible]
W'wide Recovery	5¼	192.64	192.64	206.04	1.65	[illegible]
American Growth	5¼	89.67	89.67	95.91	1.35	[illegible]
Intl Emerging Cos	5¼	87 63	87.63	93.73	0.92	41133
Far East Grth	5¼	120.33	120.33	128.70	2.00	41134
European Gwth	5¼	73.27	73.27	78.48	1.10	41135
UK Growth	5¼	44 77	44.77	47.89	2.66	[illegible]
High Income	5¼	56.28	56.28	60.20	5.86	41137
Japanese Gwth	5¼	113.36	113.36	121.18	0 01	[illegible]
Phillips & Drew Unit Managers Ltd						
14 Finsbury Square, London EC2A 1PD						01-628 6070
Charities Fxd Inc		98.40	98.40	98.56	9.4	–
Charities Ind Ltd		99.85	99.85	100.06	2.4	–
UK Exempt		103.4	103.4	104.9	3 4	–
Charities Intl		105 4	105.4	106.4	3.2	–
Prolific Unit Tst Mngrs Ltd (1200)H						
222 Bishopsgate, London EC2						01-247 7544/7
American Income	5	63 59	64 95	69 17	3.91	41141
Conv & Gilt	5	125 5	126.5xd	135.1	6.02	[illegible]
Euro Gwth & Inc	5	49 66	49.84	53.31	2.09	41143
Extra Income	5	137.1	138.4	147.6	4.59	41144
Far East	5	258.1	258 1	274 3	0 01	41145
High Income	5	88.60	89 31xd	95 02	4.27	[illegible]
International	5	144.1	148.3	157.8	0.64	41147
Nth American	5	150 9	153 5	164 2	0.01	[illegible]
Pref & Fxd Int	5	46.98	48.11xd	51.19	9.40	[illegible]
Special Sits	5	108 8	109.3xd	116.9	0.54	[illegible]
Technology	5	140.2	144 6xd	154.4	0.51	41150
Providence Capitol Fd Mgrs Ltd (1000)H						
30 Uxbridge Road, London W12 8PG						01-749 9111
Worldwide Inc	5	97.22	97.22	103.80	0.29	41151
Worldwide Acc	5	101.3	101.3	108.20	0.29	41152
UK Equity Inc	5	73.34	73.34xd	79.20	3.15	41153
UK Equity Acc	5	80.67	80 67xd	87 12	3.15	41154
European Inc	5	111.00	111.00xd	118.70	0.61	41155
European Acc	5	115.00	115.00xd	123 0	0.61	41156
Nth American Inc	5	64 93	64 93	68.99	1.46	41157
Nth American Acc	5	67.33	67.33	71.55	1 46	41158
Japan Inc	5	115.20	115 20	123.20	0 00	41159
Japan Acc	5	115.40	115.40	123.40	0 00	41160
UK High Inc Eq Inc	5	70.63	70.63	76.34	5.91	41161
UK High Inc Eq Acc	5	78.45	78.45	84 80	5.91	41162
Hong Kong Inc	5	44.29	44.29	47.25	2.82	41163
Hong Kong Acc	5	45.84	45 84	48 89	2.82	41164
Swiss Equities Inc	5	34.84	34.84	37.33	1.30	41165
Swiss Equities Acc	5	35.14	35 14	37.66	1.30	[illegible]
W'wide Bond Inc	5	51.31	51.31	54.19	5.99	41167
W'wide Bond Acc	5	52.98	52.98	55.95	5.99	[illegible]
Emerging Asia Inc	5	81.03	81.03xd	86.82	0.00	[illegible]
Emerging Asia Acc	5	81.03	81.03xd	86.82	0.00	[illegible]

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Provident Mutual Unit Tst Mgrs Ltd (0905)H						
25-31 Moorgate, London, EC2R 6BA						01-588 3963
PM Equity Gth	5	121.6	123.5	131.3	2 63	41169
PM Income & Gth	5	102 8	104 5	111.1	4.71	41170
PM Nth Amer Gth	5	56.00	56.00	59.57	1.27	41171
PM European Gth	5	53.49	53.49	56.90	0.78	41172
PM Japan Gth	5	79.51	79 65	84.73	0.29	41173
PM Overseas Gth	5	53.31	53 31	56.71	0.46	41174
Prudential Holborn Unit Tsts Ltd (1445)H						
51-59 Ilford Hill, Ilford, Essex IG1 2DL						01-478 3377
Holborn LinkLine 0800 010345						
Two Hourly Pricing						
Holborn Trust	6	23 50	23.50	25.00	3.15	–

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Smith & Williamson Unit Tst Mgrs (1000)F						
1 Riding House St, London W1A 3AS						01-637 5377
S & W American	5	170.4	172 4xd	182 4	1.30	41390
S & W Far Eastern	5	105 4	106 5	112 6	0 00	–
S & W Growth	5	96.84	98.19	103.9	1.70	41391
S & W Income	5	99 09	101 4	107 3	5.35	41392
S & W Smllr Secs	5	266.6	275.2	291.2	1.19	41393
Sovereign Unit Tst Mngrs Ltd (1000)F						
12 Christchurch Rd, Bournemouth						0202 295422
Charitd Primace	5½	49.53	50.27	53.54	9.07	46673
Ethical	5¼	45 85	46.57	49 58	3 16	–
Income	5½	44.42	45.18xd	48 32	7 01	41394
Intl Growth	5¼	58.85	59 14xd	63 25	2 60	41395

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♣ - 1401 to 1700 hours; ♠ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a *firm quotation at the time of dealing. The prices shown are the latest available before publication and may not* be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.
The most recent report and scheme particulars can be obtained free of charge from fund managers.
Other explanatory notes contained in last column of the FT Unit Trust Information pages.

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Grs	City-line
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London WC2B 6SD						01-405 8331
Capital & Equity	5	62.99	65.74xd	69.95	6.87	41599
European	5	63.13	63.43	67.47	0.69	[illegible]
Far Eastern	2	61.12	61.21	65.12	0.74	[illegible]
Growth Inc	5	88.29	91.59	97.43	1.34	41600
Growth Acc	5	88.29	91.59	97.43	1.34	–
Income Inc	5	83.10	84.99	90.41	4.85	[illegible]
Income Acc	5	83.10	84.99	90.41	4.85	–
Property Share	5	55.00	55.00	58.61	0.90	[illegible]
Smaller Co's	5	58.48	61.69xd	65.62	1.47	41603
Formerly RBC Trust Managers Ltd						
Nth American	5	62.49	62.49	66.82	1.40	41209
International	5	46.34	46.34	49.53	1.45	41210
Wright Seligman Fund Mngrs Ltd (1000)H						
11 Blomfield St, London EC2M 7AY						01-588 0592
Growth	5	110.44	110.44	115.44	3.22	[illegible]
Weekly dealing day Tuesday						
The Yorkshire Unit Tst Mngrs Ltd (1100)F						
Woodsome Plc, Fenay Bridge, Huddersfield						0484 602258
Yorkshire General	5¼	63.12	65.59xd	69.77	2.63	40605
YUTM Inc Eq Inc Tst	5¼	60.09	62.18	66.15	4.61	[illegible]
YUTM Intl Grwth Tst	5¼	50.61	50.61	54.01	1.01	[illegible]

OTHER UK UNIT TRUSTS

	Bid Price	Offer Price	Yield Grs	City-line
Baillie Gifford & Co Ltd				
Int'l Exmpt May 17	480.4	498.61	–	40105
Cent. Bd. of Fin. of Church of England‡‡				
2 Fore Street, London EC2Y 5AQ				01-588 1815
Inv Fund May 31		515.46	4.75	40251
Fxd Int Sec May 31		139.45	10.25	40252
Deposit May 31		100.00	12.45	40253
Charities Official Invest. Fund‡‡				
2 Fore Street, London EC2Y 5AQ				01-588 1815
Income May 31		487.57	4.90	40258
Accum May 31		1620.94	–	40259
Edinburgh Fund Mngrs PLC				
Exempt Funds				
American May 31	147.6	151.7	1.49	40368
Managed May 31	131.5	136.4	2.11	40369
Japan June 1	142.4	146.4	0.14	40370
Pacific June 2	460.8	473.5	0.21	40371

INSURANCES

	Bid Price	Offer Price	Yield Grs	City-line
Allied Dunbar Assurance Plc				
Allied Dunbar Ctr, Swindon SN1 1EL				0793 514514
Fixed Int. Dep. Acc	260.2	273.9	–	41723
Equity Acc	846.4	891.0	–	41724
Property Acc	493.1	518.1	–	41725
Far East Acc	209.2	220.3	–	41726
European Acc	22.6	23.8	–	41727
Managed Acc	668.4	703.6	–	41728
Managed Cap	379.6	399.6	–	41729
O'seas Earnings Acc	554.5	583.7	–	41730
Gilt Edged Acc	308.2	324.5	–	41731
American Equity Acc	460.9	485.2	–	41732
American Man Acc	213.9	225.2	–	41733
American Prop Acc	148.2	156.0	–	41734
Pen. F.I. Dep. Cap	286.8	301.9	–	41735
Pen. F.I. Dep. Acc	490.6	516.5	–	41736
Pen. Prop. Cap	580.3	610.9	–	41737
Pen. Prop. Acc	1096.5	1154.3	–	41738
Pen. Man. Cap	812.1	853.8	–	41739
Pen. Man. Acc	1531.9	1612.6	–	41740
Pen. Gilt Edg. Cap	311.2	327.6	–	41741
Pen. Gilt Edg. Acc	480.3	505.6	–	41742
Pen. Eq. Cap	1328.6	1398.5	–	41743
Pen. Eq. Acc	1899.2	1999.2	–	41744
Pen. Am. Eq Cap	154.0	162.2	–	41745
Pen. Am. Eq Acc	185.9	195.7	–	41746
Pen. Far East Cap	248.4	261.5	–	41747
Pen. Far East Acc	299.8	315.6	–	41748
Pen. Euro Cap	25.5	26.9	–	41749
Pen. Euro. Acc	27.7	29.2	–	41750
Pen. B.S. Acc	537.5	564.4	–	41751
Pen. B.S. Cap	322.9	339.1	–	41752
Pen. D.A.F. Acc	376.5	[illegible]	–	41753
Pen. D.A.F. Cap	253.9	[illegible]	–	41754
Pen. Mortgage Cap	144.6	152.3	–	41755
Pen. Mortgage Acc	174.6	183.8	–	41756
Hambro Funds				
Pen Equ Cap	28.0	29.5	–	46176
Pen Equ Acc	29.1	30.7	–	46177
Pen Am Eq Cap	33.3	35.1	–	46178
Pen Am Eq Acc	34.6	36.5	–	46179
Pen Far East Cap	31.6	33.3	–	46180
Pen Far East Acc	32.8	34.6	–	46181
Pen Euro Cap	35.0	36.9	–	46182
Pen Euro Acc	36.4	38.4	–	46183
Abbey Capital Funds				
Pen Equ Cap	28.4	29.9	–	46184

	Bid Price	Offer Price	Yield Grs	City-line
Devonshire Life				
29 Glasshouse St., W1R 5RG				01-434 3511
Managed	161.3	169.9	–	42158
World Growth	131.1	138.1	–	42159
UK Equity	182.9	192.7	–	42160
UK Small Companies	181.0	190.6	–	42161
European	122.2	128.7	–	42162
Far Eastern	238.2	250.8	–	42163
Nth American	118.2	124.5	–	42164
Fixed Interest	128.8	135.6	–	42165
Index Linked Stks	136.7	144.0	–	42166
Money	116.2	122.5	–	42167
Pen Managed	205.0	215.9	–	42168

	Bid Price	Offer Price	Yield Grs	City-line
Assicurazioni GENERALI SpA				
117 Fenchurch St, London EC3M 5DY				01-488 0733
Hambro General UK Ca	138.7	146.0	–	42324
Hambro General Paty	184.6	194.4	–	42325
Hambros Canadian	123.9	130.5	–	42326
Hambros Equity Inc	153.7	161.8	–	42327
Hambros European	125.8	132.5	–	42328
Hambros High Income	203.8	214.6	–	42329
Hambros Jap & Far East	177.2	186.6	–	42330
Hambros Nth American	170.6	179.6	–	42331
Hambros Res & Assets	164.2	172.9	–	42332
Hambros Scandinavian	167.8	176.7	–	42333

	Bid Price	Offer Price	Yield Grs	City-line
Irish Life Assurance Co Plc—Contd.				
Managed Pen Ser 2	561.5	591.1	–	42661
Equity Pen. Series 2	673.3	708.7	–	42662
Gilt Edged Pen. Ser 2	422.1	444.3	–	42663
Property Pen. Ser. 2	230.0	242.1	–	42664
Cash Pension Series 2	206.5	217.4	–	42665
Security Bias Pen Ser 3	117.8	124.0	–	42666
Bal Man Pen Ser 3	592.5	623.7	–	42667
Opp Man Pen Ser 3	111.1	116.9	–	42668
UK Equity Pen Ser 3	651.6	685.9	–	42669
Intl Equity Pen Ser 3	761.0	801.0	–	42670
Fixed Int Pen Ser 3	422.1	444.3	–	42671

	Bid Price	Offer Price	Yield Grs	City-line
MGM Assurance(z)				
MGM House, Heene Rd, Worthing				0903 204631
UK Equity Acc	262.5	276.4	–	42890
Special Situations Acc	251.7	265.0	–	42891
North American Acc	181.4	191.0	–	42892
Pacific Basin Acc	367.2	386.6	–	42893
Fixed Interest Acc	257.1	270.7	–	42894
Property Acc	204.3	215.1	–	42895
Deposit Acc	141.8	149.3	–	42896
Managed Acc	256.7	270.3	–	42897
Bonus Gwth Fd Acc	112.2	118.1	–	43898
Intl Equity Acc	107.0	112.7	–	–

	Bid Price	Offer Price	Yield Grs	City-line
NEL Britannia Assce Co Ltd—Contd.				
Barings Mgd P'folio	110.5	110.5	–	46392
Fidelity Mgd P'folio	111.4	111.4	–	46393
GT Mgd P'folio	111.4	111.4	–	46394
Cartmore Mgd P'folio	111.4	111.4	–	46395
Henderson Mgd P'folio	126.3	126.3	–	46396
Mackenzie Mgd P'folio	119.0	119.0	–	46397
Perpetual Mgd P'folio	117.7	117.7	–	46398
Royal Ist Mgd P'folio	112.1	112.1	–	46399
M/M Brit Exempt. Tst	117.9	117.9	–	46400
Equity Screening	101.8	101.8	–	46401

[illegible]

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Premium Life Assurance Co Ltd

37-39, Perrymount Road, Haywards Heath 0444 458721

	Bid Price	Offer Price	Yield Gross	City-line
American	134.0	142.0	–	43285
Building Soc. Fd.	171.0	180.0	–	43286
Balanced	281.0	296.0	–	43287
European	172.0	182.0	–	43289
GT Managed	173.0	183.0	–	43290
Gartmore Mngd	116.0	123.0	–	43291
German	119.0	125.0	–	43292
Gilt	178.0	188.0	–	43293
Global	48.0	51.0	–	–
High Inc.	121.0	128.0	–	43294
International Equity	193.0	204.0	–	43295
Japan	239.0	252.0	–	43296
Managed	63.0	67.0	–	43297
Property	281.0	296.0	–	43298
R W Imperial Gold	146.0	154.0	–	43299
UK Equity	367.0	387.0	–	43300
Pension Funds				
American	153.0	162.0	–	43301
Building Soc. Fd.	171.0	180.0	–	43302
Balanced	217.0	229.0	–	43305
European	170.0	179.0	–	43305
German	106.0	112.0	–	43308
Gilt	153.0	162.0	–	43309
International Equity	[illegible]	150.0	–	43310
Japan	137.0	145.0	–	43311
Managed	64.0	68.0	–	43312
Property	216.0	228.0	–	43313
UK Equity	329.0	347.0	–	43314

Prolific Life & Pensions Ltd

Stramongate, Kendal, Cumbria LA9 4BE 0539 33733

Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Balanced Grth Mngd	594.8	626.5	–	43315
Adventurous Mngd	127.0	133.9	–	46402
Secure Mngd	109.4	115.3	–	46403
Cash Fd.	232.6	245.2	–	43316
Property Fund	285.4	303.7	–	43317
Equity Fund	664.7	707.2	–	43318
Fxd. Int. Fund	291.8	310.5	–	43319

Prudential Holborn Pensions Ltd—Contd.

	Bid Price	Offer Price	Yield Gross	City-line
Communications	102.7	108.2	–	43537
Smaller Companies	106.3	111.9	–	43538
International Small Cos	130.1	137.0	–	46239

Prudential Pensions Limited

Holborn Bars, London EC1N 2NH 01-405 9222

	Bid Price	Offer Price	Yield Gross	City-line
Discretionary May 31	£154.65	160.01	–	43539
Equity May 31	£168.56	174.69	–	43540
International May 31	£26.16	26.93	–	43541
Intl Bond May 31	£12.42	12.58	–	43542
Fixed Int May 31	£71.86	72.82	–	43543
Index Linked May 31	£60.28	61.03	–	43544
Property May 31	£109.38	115.92	–	43545
Cash May 31	£20.7872	20.7872	–	43546
Pre-Linked Retirement Plan				
Managed May 31	383.2	399.2	–	43547
Cash May 31	195.3	203.5	–	43548
Prudential Pensions Investment Account				
Pens Mngd June 2	152.0	163.6	–	43549
Pens UK Eq June 2	296.6	320.1	–	43550
Pens Intl June 2	184.9	199.1	–	43551
Pens Fixed June 2	163.2	172.4	–	43552
Pens Index Lk June 2	152.8	161.3	–	43553
Pens Cash June 2	127.5	134.3	–	43554

Regency Life Assurance Co Ltd

Regency Hse, Lanark Sq, London E14 9XS 01-538 8800

	Bid Price	Offer Price	Yield Gross	City-line
Aggressive Ptflio Fd	117.9	124.0	–	43555
Balanced Ptflio Fd	308.3	324.5	–	43556
Cautious Ptflio Fd	120.4	126.7	–	43557
Elite Fund	106.4	111.9	–	43558
European Fund	83.8	88.2	–	43559
Far East Fund	107.4	113.0	–	43560
Fixed Interest Fund	238.5	251.0	–	43561
International Fund	267.8	281.8	–	43562
Money Fund	176.1	185.3	–	43563
N American Fd	118.6	124.8	–	43564
Property Fund	413.0	434.7	–	43565
UK Equity Fd.	373.5	393.1	–	43566
Al M Brewn Dbl Fd.	92.1	96.9	–	43567

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

MANAGEMENT SERVICES

FT UNIT TRUST INFORMATION SERVICE

[illegible]

ISLE OF MAN (**)

[illegible]

LUXEMBOURG (**)

[illegible]

OFFSHORE INSURANCES

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

Five to Fifteen Years

[illegible]

BRITISH FUNDS—Contd

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
14	NZ 7¼pc 1988-92	87¼	12.30	1.12	1Jan 1Jul	–
–	S Rhod 2½pc Non-Assd.	206	–	–	1Apr 1Oct	–
4	Do. 4½pc 87-92 Assd.	84½xd	9.33	9.1	7Feb 7Aug	–

LOANS

Building Societies

20	N'wide Anglia 9⅞ 26.6.89	99¼	14.27	21.11	26June 20Dec	–
20	Do. 10⅞pc 17.7.89	99	14.33	12.12	11Jan 17Jly	–
20	Do. 11pc 7.8.89	99	14.13	3.1	1Feb 7Aug	–
20	Do. 11pc 29.8.89	99	14.21	–	2Feb 29Aug	–
20	Do. 12pc 18.9.89	99	14.28	10.2	12Mar 18Sep	–
20	Do. 12pc 2.10.89	99¼	14.22	27.2	26Mar 2Oct	–
20	Do. 11pc 6.11.89	98xd	14.28	31.3	30Apr 6Nov	–
20	Do. 12pc 4.12.89	99	14.25	28.4	28May 4Dec	–
20	Do. 12pc 2.1.90	99xd	14.24	30.5	2Jan 28Jun	–
20	Do. 12pc 29.1.90	98	14.24	9.2	29Jan 23Jly	–
–	Do. 12pc 26.2.90	98	14.20	–	26Feb 20Aug	–
60	Do. 3⅞pcIL Ln 2021	99½xd	4.45	23.1	30Jan 31Jul	3465

Public Board and Ind.

3	Agric. Mt. 5pc '59-89	99xd	–	1.6	1Jan 1July	1532
25	Met. Wtr. 3pc 'B'	46xd	10.41	1.2	1Mar 15Sep	3361

FOREIGN BONDS & RAILS

Amount £m	Stock	Price £	Div % Gross	Yld	Last xd	Interest Paid	City-line
7	Greek 7pc Ass.	40	3.50	8.75	1.11	1May 1Nov	2763
4	Do. 6pc 28 Stb. Ass.	40xd	3	7.50	1.2	1Feb 1Aug	2762
–	Do 4pc Mixed Ass.	40xd	2	5.00	3.4	1Apr 1Oct	2761

[illegible]

AMERICANS

[illegible]

Continued on next page

Money Market Bank Accounts

[illegible]

Money Market Trust Funds

[illegible]

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AMERICANS—Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
135.3	Cullinet Sftwr 1c	419p					
	Dana Corp. $1	26¼	$1.60	3.9	30.5	Mr Je Se De	2306
313.9	Data General	11½					
	Dun & Bradstreet $1	36	$2.00	3.5	13.2	Mr Je Sp Dc	
	Eaton Corpn. 50c	39¾	$2.00	3.2	1.2	F My Au N	2410
656.9	Echlin Inc	11	70c	4.0	3.4		
	FPL Group 1c	19¾	$2.20	7.0	23.11		
	Ford Motor $1	31¼	$3.00	6.1	27.4	Mar Jun S D	2615
782.8	GATX 62½c	41⅞	$2.00	3.0	7.3	Mar Jun S D	2662
	Gen. Elect. 63c	34⅜	$1.64	3.0	2.3	Ja Ap Jly O	2675
	General Host Corp $1	537p	28c	3.3	13.12		
266.9	Gl Am First Svg Bk $1	814p	60c	4.7	28.10		

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
38.9	Breedon	137	3.75	3.6	17.4	Oct. May	1941
4.54	BB & EA	375	13.0	1.1	28.12	Feb Oct	1900
32.1	British Dredging	174	6.0	4.5	17.4	May Dec	1906
212.2	Bryant Group	180	4.9	5.5	13.2	Nov. Apr	1992
8.06	Bucknall Austin 1p	118	1.3	3.7	30.1		5145
48.9	CALA 5p	139	2.75	2.6	13.3	Oct Apr	2034
5.46	CCS Group 20p	55	L0.45	1.1			
543.5	CRH	191		3.0	13.3	Oct. Mar	1392
7.09	Cakebread Robey 'A'	139	4.1	4.2	28.11	Jan Jul	2033
206.7	Caradon 5p	340	8.0	3.1	12.12	Jan Aug	3069
11.7	Carron Powers 10p	183	4.0	5.2	16.1	Feb Jun	4679

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
53.2	Liberty	1185	12.6	1.4	8.5	June Nov	3164
11.2	Do. Non Vtg	638	12.6	2.6	8.5	June Nov	3163
	Limited Inc $0.50	£21		1.0	6.12	Mr Je Se De	
69.9	Lloyds Chemists 5p	186	1.7	1.2	8.5	Jun Nov	3172
23.8	Do. 7.5p Cm Pf 5p	149		7.1	3.4		3173
95.9	Lowndes Q'way 5p	42		5.1	22.5	July	5200
26.6	Mallett 5p	193	4.4	3.0	17.4	May Oct	3274
477	Marks & Spencer	179	5.4	4.2	22.5	Jan. Aug.	3292
192.8	Menzies (J.)	347			22.5	Jan. July	3304
20.1	Miller & Santhouse 5p	257				Oct May	3339
31.2	Moss Bros Grp 5p	248	4.0	2.2	8.5	Jan Dec	3424
529.7	Next 10p	142	7.4	6.9	22.5	Jan Jun	3490
23.2	Oliver Grp. "A"	180	5.0	3.7	17.4	Oct May	3567

ELECTRICALS

ENGINEERING

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
417.4	APV 10p	344	4.8	4.4	8.5	Nov Jan	1633
181.6	ASW Hldgs. 5p	279	s4.5	2.2	28.11	January	5064
8.96	AT Trust 30p	55					1686
109.7	Adwest Group	174	†15.88	4.5	17.4	May Nov	1523
24.6	Aerospace Eng	82	†2.6	4.2	13.2	Apr Oct	1525
	Airship Inds	4					
38.9	Ash & Lacy	493	36.0	5.5	17.4	Nov May	1663
30.9	Atlas Conv Equ 5p	383	10.0	3.5	8.5	Dec June	1691
121.5	BM Group 10p	487	13.0	0.8	3.4	May Nov	1858
7.42	Bailey (C. H.)	13½			3.80	April	1724
14.6	Beauford 10p	225	4.6	2.7	3.4	May Nov	1785
22.7	Birmingham Mint	159	†7.5	6.3	12.12	Jan Oct	1836
93.2	Blackwood Hodge	57	1.5	3.5	3.4	Jan Nov	1848
4.60	Booth Industries	119	†1.38	1.6	12.12	Jan Sept	1875

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
74.8	Amer Group Free A	£22¼	035%	4.7	12.87	December	1590
18.6	Antler 5p	327	15.0	2.1	3.4	May Nov	1625
9.94	Apollo Metals 10p	87	2.0	3.1	8.5	July	1460
12.2	Apollo Watch Prods 1p	25	0.45	2.4	8.5	July	1377
10.8	Arley	119	3.3	3.7	3.4	Oct May	1648
14.6	Armour Trust 10p	61½	†0.91	2.0	27.2	Nov May	1651
11.8	Assoc Brit Crafts 20p	167	R5.25	4.2		Apr Oct	3591
14.6	Assoc. Br. Eng. 1p	6½	0.03	0.6	5.9	October	1673
4.61	Do. 6pcCumCvRdPf	380	8%	3.6	13.2	Mar. Sept.	1672
499.0	Assoc Brit Ports	571	10.0	2.3	17.4	May Nov	1675
	Assoc. Energy 5p	54			2.85		1677
3.74	Assoc. Borden Serv 10p	14¾	b2.0	1.9			4884
302.4	Astra AB B SKr125	£25¼	020%	0.9	23.5	Jan May	
15.4	Astrell Assocs. 5p	127	W3.0	3.1	30.1	March	4796
6.77	Astra Fireworks	487	11.0	3.6	8.5	July Jan	1712

INDUSTRIALS (Miscel.) — Contd.

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
5.48	Malamet Hldgs 10p	87	†11.69	2.6	13.3	Oct Apr.	3269
80.0	Man. Ship Can. £1	£20			23.2		3277
63.0	Marling Ind. 10p	228	†3.3	1.9	12.12	Jan. Oct	3296
3.66	Marlorim 1p	13			15.2		3308
13.1	Maybora Group 5p	71	3.8	7.1	17.4	Oct. May.	3313
654.2	Mayne Nickless A$0.50	270	Q20c	3.6	3.4	October	4683
	Medical Research	4½					3327
55.4	Melville Group 10p	195	14.2	3.6	3.4	May	5309
44.9	Metal Closures	177	8.15	6.1	17.4	Nov. Jly	3357
21.9	Metsec 10p	171	3.8	3.0	17.4	May Nov	3362
96.6	Mid Kent Hldgs	388	6.0	2.1	5.5		4389
3.19	Mia & Allied Spls 12½p	26½			2.80		3391
11.3	Milety	283	a0.29	0.1	1.8	August	3393
18.5	Mollolls & Crane 10p	185	12.2	3.0	28.2	Feb-Aug	3402
23.3	Morgan Crucible	278	10.9	5.3	8.5	Jan. July	3416

INSURANCES

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

INSURANCES—Contd

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING — Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.
Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ± Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p.... γ	99	......
Craig & Rose £1... γ	720	......
Finlay Pkg. 5p.... γ	88xd	......
Holt (Jos) 25p.... γ	1333	+8

IRISH

Cap. 8½% Ln. 1991	£98	......
9pc Cap Ln. 1996..	£97¼	......
Fin. 13% 97/02...	£118	......
Arnotts	440xd	......
Carrol (P.J.)....... γ	152	......
Hall (R. & H.)	160	......
Heiton Hldgs....... γ	73	-2
Irish Ropes	203xd	......
United Drug	138	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	38
Amstrad	11
BAT	45
BOC Grp	42
BSR	6½
BTR	32
Barclays	42
Beecham	50
Blue Circle	48
Boots	25
Bowaters	44
Brit Aerospace	52
British Steel	7½
Brit. Telecom	21
Burton Ord	18
Cadburys	31
Charter Cons	48
Comm Union	32
Courtaulds	30
FKI Babcock	14
FNFC	22
Gen Accident	85
GEC	20
Glaxo	110
Grand Met	48
GUS 'A'	90
Guardian	18
GKN	34
Hanson	16
Hawker Sidd	60
ICI	100
Jaguar	28
Ladbroke	48
Legal & Gen	26
Lex Service	33
Lloyds Bank	29
Lucas Inds	58
Marks & Spencer	15
Midland Bk	30
Morgan Grenfell	24
Nat West Bk	52
P & O Dfd	55
Plessey	22
Polly Peck	26
Racal Elect	40
RHM	42
Rank Org Ord	80
Reed Intnl	34
STC	32
Sears	10
TI	38
TSB	10
Tesco	14
Thorn EMI	58
Trust Houses	24
T&N	18
Unilever	46
Vickers	18
Wellcome	42

Property	
Brit Land	32
Land Securities	52
MEPC	58
Raedsworth	28

Oils	
Brit Petroleum	21
Burmah Oil	50
Calor	35
Charterhall	2½
Premier	9
Shell	32
Ultramar	26

Mines	
Cons Gold	100
Lonrho	30
RTZ	40

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

CURRENCIES AND MONEY REVIEW

Bank neatly sidesteps a difficult decision

A NEAT sidestep and some dazzling ball control was the reaction in the City to the Bank of England's performance on the London money market last week.

This was particularly evident on Thursday. When dealers looked at the factors likely to influence the market that day they were confident of a substantial day-to-day credit shortage, possibly running as high as £600m.

There was therefore some incredulity when the Bank of England forecast a flat credit position, but it soon became obvious that this simply meant the authorities had no intention of operating in the market before the result of the West German Bundesbank's council meeting was known.

The Bank of England could in effect sit on its hands. If a shortage had been forecast and the authorities had offered to buy bills during the morning the dealing rates would have been taken as a signal on base rates.

It has been said that relationships within the Group of Seven main industrial nations are perhaps not too cordial at present. This is partly a reflection of the recent strength of the dollar - putting upward pressure on inflation in other countries - and suggestions that the US is more committed to the idea of G7 when the dollar is falling. But it also points to a lack of willingness to co-operate on many matters, both political and economic, among the European nations.

The Bundesbank was therefore perhaps unlikely to give any helpful clues to the Bank of England on the outcome of its council meeting, leaving the UK central bank to worry and wonder. Under the circumstances it was quite understandable that the Bank of England dodged the issue on interest rates until it was more confident that sterling was not about to suffer another sharp blow.

The pound has fallen by about 5 per cent since the beginning of the year, and on the Treasury's economic model this leads to a rise of 1 per cent in inflation after a year.

At almost the same time that the Bundesbank announced no change in its credit policies - after a period of nervousness that German rates were about to be pushed higher - the Bank of England revised the London credit position to a shortage and bought bills at an unchanged rate.

This was a signal that base rates could remain at 14 per cent, but still left the market suspecting that if the Bundesbank had announced a rise in its discount or Lombard rates the Bank of England would have moved quickly to protect the pound with another upward twist in the interest rate spiral.

US employment data on Friday was then looked to for further guidance on interest rates, but in the event there was no sign the Federal Reserve was about to emulate the US cavalry and ride to the assistance of the beleaguered pound, or any other foreign currency.

US non-farm payrolls in May rose by only 101,000, against forecasts of 200,000. This weak result encouraged hopes that the Federal Reserve would ease its monetary stance. The Southwest Bank of St Louis, a US provincial bank, cut its prime lending rate by ½ per cent to 11 per cent, but there was still no sign that the Fed is adopting a more accommodative stance on interest rates.

Liquidity was drained from the New York banking system on Friday, via matched sales. This scotched hopes of an immediate cut in US interest rates, but as far as the UK is concerned last weeks events, on the international stage, did not increase pressure on sterling and may have given the authorities a little breathing space on base rates.

Colin Millham

£ IN NEW YORK

June 2	Close	Previous Close
£ Spot	1.6040-1.6050	1.5772-1.5780
1 month	0.55-0.54pm	0.56-0.54pm
3 months	1.79-1.76pm	1.72-1.62pm
12 months	6.45-6.30pm	6.12-6.02pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	June 2	Previous
8.30 am	92.6	92.3
9.00 am	92.6	92.5
10.00 am	92.5	92.4
11.00 am	92.6	92.4
Noon	92.6	92.5
1.00 pm	92.5	92.3
2.00 pm	92.5	92.3
3.00 pm	92.5	92.3
4.00 pm	92.5	92.4

CURRENCY RATES

June 2	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.790664	0.665507
U.S Dollar	7	1.24158	1.05450
Canadian $	12.39	1.49834	1.27172
Austrian Sch	5	17.3474	14.6174
Belgian Franc	7.75	51.7366	43.4769
Danish Krone	7½	9.58810	8.08429
Deutsche Mark	4.50	2.47062	2.07577
Neth Guilder	5.50	2.77990	2.33877
French Franc	9½	8.37073	7.04456
Italian Lira	13½	1794.31	1506.08
Japanese Yen	2½	177.298	149.759
Norway Krone	8	N/A	7.52119
Spanish Peseta	-	156.451	131.664
Swedish Krona	9½	8.28196	7.00080
Swiss Franc	4.5	2.13366	1.78737
Greek Drach.	20½	210.653	178.052
Irish Punt	-	N/A	0.776449

*All SDR rates are for June 1

CURRENCY MOVEMENTS

June 2	Bank of England Index	Morgan** Guaranty Changes %
Sterling	92.5	-18.7
U.S Dollar	71.6	-5.6
Canadian Dollar	102.7	-0.7
Austrian Schilling	106.4	+9.4
Belgian Franc	105.7	-6.4
Danish Krone	102.6	-2.4
Deutsche Mark	112.4	+19.8
Swiss Franc	107.0	+16.2
Guilder	110.0	+12.8
French Franc	98.8	-15.9
Lira	98.3	-19.6
Yen	140.6	+70.3

Morgan Guaranty changes: average 1980-1982 = 100. Bank of England Index (Base Average 1985 = 100) **Rates are for June 1.

OTHER CURRENCIES

June 2	£	$
Argentina	278.05 - 280.40	175.00 - 177.80
Australia	2.1010 - 2.1035	1.3225 - 1.3235
Brazil	1.8110 - 1.8205	1.1400 - 1.1450
Finland	6.9435 - 6.9685	4.3940 - 4.3960
Greece	265.70 - 270.20	167.65 - 170.35
Hong Kong	12.3495 - 12.3665	7.7730 - 7.7750
Iran	117.50*	72.50*
Korea(Sth)	1047.20 - 1055.65	663.90 - 669.30
Kuwait	0.46800 - 0.46940	0.29570 - 0.29650
Luxembourg	65.15 - 65.25	40.90 - 41.00
Malaysia	4.2920 - 4.3045	2.6990 - 2.7030
Mexico	3915.05 - 3917.90	2464.00 - 2465.00
N. Zealand	2.7105 - 2.7155	1.7110 - 1.7140
Saudi Ar.	5.9360 - 5.9395	3.7500 - 3.7510
Singapore	3.0960 - 3.1055	1.9505 - 1.9525
S. Af (Cm)	4.3570 - 4.3695	2.7450 - 2.7500
S. Af (Fn)	6.5665 - 6.7055	4.1320 - 4.2195
Taiwan	41.15 - 41.25	25.90 - 25.95
U.A.E.	5.8125 - 5.8160	3.6720 - 3.6730

*Selling rate

EURO-CURRENCY INTEREST RATES

June 2	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	13½-13¼	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can Dollar	[illegible]	[illegible]	[illegible]	[illegible]	12-11¾	[illegible]
D. Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sw. Franc	7¼-7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Deutschmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fr. Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

POUND SPOT- FORWARD AGAINST THE POUND

June 2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5800 - 1.5930	1.5915 - 1.5925	0.55-0.52cpm	4.03	1.76-1.71pm	4.36
Canada	1.9055 - 1.9225	1.9195 - 1.9205	0.26-0.15cpm	1.28	0.87-0.70pm	1.64
Netherlands	3.50 - 3.52¼	3.50½ - 3.51½	2-1¾cpm	6.62	5¾-5⅝pm	6.56
Belgium	65.15 - 65.55	65.15 - 65.25	31-27cpm	5.34	91-83pm	5.34
Denmark	12.13½ - 12.18½	12.13½ - 12.14½	5½-4⅝orepm	5.00	14¼-13¼pm	4.51
Ireland	1.1625 - 1.1695	1.1645 - 1.1655	0.50-0.45cpm	4.89	1.30-1.20pm	4.29
W. Germany	3.11¼ - 3.12¼	3.11½ - 3.12	1⅞-1¾pfpm	6.98	5¼-5¼pm	6.82

EXCHANGE CROSS RATES

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

MONEY MARKETS

London rates end below the week's high

INTEREST RATES finished on a steady note in London last week. Three-month interbank closed at 14 per cent, in line with the present level of UK bank base rates. This was a rise of ⅛ per cent from the previous Friday, but was well below the levels touched earlier in the week when rumours circulated about a major row on economic policy between Mrs Margaret Thatcher, the Prime Minister, and Mr Nigel Lawson, the Chancellor.

UK clearing bank base lending rate 14 per cent from May 24

At one time three-month money was offered at 14⅝ per cent, but rates eased when the Bundesbank failed to increase official interest rates in West Germany and hopes were raised of a cut in US rates following Friday's news on May US employment trends.

It was noticeable however that the differential between short term rates in London and yields on long term British Government bonds narrowed. The international situation took the pressure off short term rates by the end of the week, while the suggestion that the Treasury is to cut back on the programme of gilt repurchases pushed up longer term gilt yields.

There were several reasons to believe the Bundesbank would not raise rates last week, including the failure of the dollar to establish a level above DM2.00 and a net inflow of liquidity to the Frankfurt banking system at last week's Bundesbank securities repurchase agreement tender.

The market was not surprised when the Bundesbank council left rates unchanged, but the threat of inflation remains a worry and a tightening of monetary policy can not be ruled out within the next month or so.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS. Figures in parentheses show number of stocks per grouping	FRIDAY JUNE 2 1989 US Dollar Index	% change since Dec.30 '88	Pound Sterling Index	Local Currency Index	% change local currency since Dec.30 '88	Gross Div. Yield	THURSDAY JUNE 1 1989 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1989 High	1989 Low	Year ago (approx)
Australia (87)	132.54	-8.3	123.43	116.63	+3.6	4.96	132.44	124.83	116.98	157.12	126.28	144.10
Austria (19)	120.74	+25.9	112.45	123.22	+39.0	2.09	118.92	112.08	122.58	124.16	92.84	87.88
Belgium (63)	130.43	-3.5	121.47	132.04	+6.1	4.15	128.56	121.17	131.89	137.10	126.33	121.87
Canada (125)	138.27	+10.1	128.77	120.80	+11.3	3.40	137.77	129.88	120.41	138.27	124.67	121.56
Denmark (38)	180.93	+6.2	168.50	187.64	+18.0	1.79	177.28	167.07	186.00	181.03	155.35	128.28
Finland (26)	145.79	+11.4	135.77	134.47	+17.6	1.56	144.20	135.92	133.80	159.16	125.81	134.55
France (126)	120.75	+5.0	112.45	125.86	+15.1	3.01	117.63	110.87	124.14	122.79	112.57	95.05
West Germany (100)	85.55	-2.7	79.67	87.07	+7.3	2.39	83.92	79.10	86.51	90.40	79.56	77.02
Hong Kong (49)	112.52	+0.6	104.78	112.30	+0.2	4.81	113.22	106.71	113.00	140.33	111.80	102.60
Ireland (17)	138.07	+4.8	128.58	142.68	+15.6	2.95	138.17	130.23	144.32	151.36	125.00	132.88
Italy (97)	78.10	-8.3	72.74	82.89	-0.2	2.66	76.87	72.45	82.61	86.88	74.97	70.53
Japan (455)	177.95	-7.1	165.72	159.44	+5.4	0.49	178.08	167.85	160.63	200.11	177.66	170.05
Malaysia (36)	185.03	+28.9	172.32	192.48	+28.6	2.49	182.65	172.34	181.62	185.03	143.35	139.85
Mexico (13)	228.10	+40.9	212.42	614.62	+51.8	0.82	222.31	209.54	601.46	228.10	153.32	160.74
Netherland (42)	116.94	+4.0	108.90	117.69	+14.5	4.38	115.34	108.71	117.65	122.22	110.63	105.16
New Zealand (24)	65.07	-3.7	60.60	59.17	+3.8	6.23	65.28	61.53	59.31	76.02	64.82	82.00
Norway (26)	177.51	+27.8	165.31	171.06	+38.2	1.55	175.03	164.97	170.34	196.39	139.92	122.14
Singapore (26)	161.98	+29.5	150.85	145.67	+30.0	1.90	160.78	151.54	144.66	161.98	124.57	117.15
South Africa (60)	132.07	+13.0	123.00	120.54	+22.7	4.38	130.87	123.35	119.45	144.86	115.35	134.76
Spain (43)	149.32	+0.6	139.06	140.27	+10.1	3.56	147.55	139.07	140.45	156.17	143.14	159.58
Sweden (35)	158.61	+9.7	147.71	155.44	+18.5	2.21	157.50	148.45	155.69	162.00	138.45	123.63
Switzerland (57)	74.94	-4.0	69.79	78.29	+7.6	2.40	72.72	68.54	76.82	79.76	67.81	79.63
United Kingdom (314)	139.01	+2.7	129.46	129.46	+16.7	4.46	137.49	129.59	129.59	153.39	134.53	135.53
USA (557)	132.76	+17.3	123.64	132.76	+17.3	3.37	131.35	123.80	131.35	132.76	112.13	108.52
Europe (1005)	116.03	+1.2	108.06	113.58	+13.0	3.59	114.24	107.67	113.21	121.70	112.65	107.80
Nordic (125)	153.72	+10.1	143.15	147.70	+19.9	1.93	151.76	143.04	147.22	155.61	137.95	118.79
Pacific Basin (677)	173.62	-6.8	161.69	155.86	+5.3	0.72	173.75	163.77	156.99	194.72	173.45	166.38
Euro-Pacific (1682)	150.63	-4.4	140.28	138.98	+7.5	1.62	149.98	141.36	139.52	164.22	149.40	143.00
North America (682)	133.00	+16.8	123.86	132.02	+16.9	3.37	131.65	124.08	130.68	133.00	112.79	109.21
Europe Ex. UK (691)	101.50	-0.1	94.52	103.75	+9.9	2.92	99.58	93.85	103.06	105.29	96.30	90.74
Pacific Ex. Japan (222)	121.75	-2.3	113.38	111.07	+4.1	4.65	121.84	114.83	111.40	137.66	121.75	122.23
World Ex. US (1880)	150.06	-3.9	139.75	138.37	+7.8	1.70	149.41	140.82	138.86	162.77	148.80	142.19
World Ex. UK (2123)	143.28	+2.3	133.43	137.16	+10.2	2.05	142.42	134.23	136.97	146.04	138.06	128.57
World Ex. So. Af. (2377)	142.95	+2.3	133.13	136.55	+10.7	2.25	142.03	133.67	136.39	146.65	138.82	129.13
World Ex. Japan (1982)	126.30	+10.1	117.62	124.68	+15.0	3.51	124.84	117.66	123.77	126.30	114.51	109.56
The World Index (2437)	142.88	+2.3	133.06	136.44	+10.7	2.26	141.96	133.80	136.27	146.51	138.83	129.17

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

CONSTITUENT CHANGES: Deletions: 2/6: Weston (G.) Foods (Australia) and Cadnetix Corp. (USA). Name changes: 1/6: Hong Kong Land to Hong Kong Land Holdings (Hong Kong) and Laporte Inds. (Hldgs) to Laporte (UK).

EUROPEAN OPTIONS EXCHANGE

TOTAL VOLUME IN CONTRACTS: 65,440

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	14	City Merchants Bank	14	Mount Banking	14
Adam & Company	14	Clydesdale Bank	14	Nat Bk. of Kuwait	14
AAB - Allied Arab Bk	14	Comm. Bk. N. East	14	NatWestminster	14
Allied Irish Bank	14	Co-operative Bank	*14	Northern Bank Ltd	14
● Henry Ansbacher	14	Coutts & Co	14	Norwich Gen. Trust	14
Associates Cap Corp	14	Cyprus Popular Bk	14	PRIVATbanken Limited	14
Authority Bank	14	Dunbar Bank PLC	14	Provincial Bank PLC	15
● B & C Merchant Bank	14	Duncan Lawrie	14	R. Raphael & Sons	14
Bank of Baroda	14	Equatorial Bank plc	14	Roxburghe G'rantee	13½
Banco Bilbao Vizcaya	14	Exeter Trust Ltd	14½	Royal Bk of Scotland	14
Bank Hapoalim	14	Financial & Gen. Bank	14	Royal Trust Bank	14
Bank Credit & Comm	14	First National Bank Plc	15	● Smith & Williamson Secs.	14
Bank of Cyprus	14	● Robert Fleming & Co.	14	Standard Chartered	13
Bank of Ireland	14	Robert Fraser & Ptnrs.	14½	TSB	14
Bank of India	14	Girobank	13	United Bk of Kuwait	14
Bank of Scotland	14	● Guinness Mahon	14	United Mizrahi Bank	14
Banque Belge Ltd	14	HFC Bank plc	14	Unity Trust Bank Plc	14
Barclays Bank	14	● Hambros Bank	14	Western Trust	14
Benchmark Bank PLC	14	Heritable & Gen Inv Bnk	14	Westpac Bank Corp.	14
Berliner Bank AG	14	● Hill Samuel	§14	Whiteaway Laidlaw	14
Brit Bk of Mid East	14	C. Hoare & Co.	14	Yorkshire Bank	14
● Brown Shipley	14	Hongkong & Shangh	14		
Business Mtge Tst	14½	● Leopold Joseph & Sons	14		
Cl. Bank Nederland	14	Lloyds Bank	14		
Central Capital	14	McDonnell Douglas Bnk	14		
● Charterhouse Bank	14	Meghraj Bank Ltd	14		
Citibank NA	14	Midland Bank	14		
		Mortgage Express Ltd.	‡13.75		

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JOTTER PAD

LONDON RECENT ISSUES

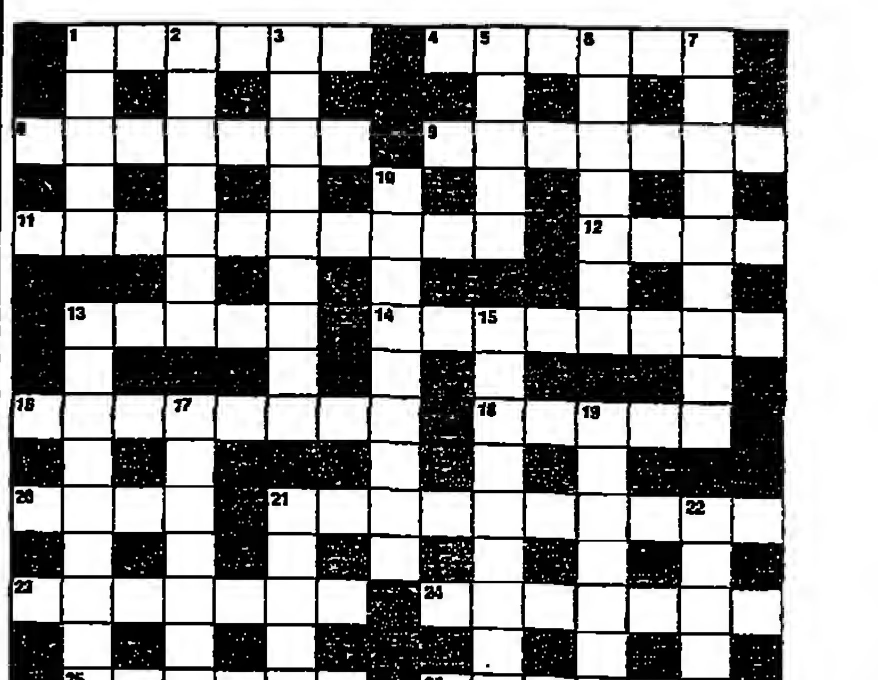
EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

CROSSWORD

No.6,951 Set by DANTE



ACROSS

1 Enraptured railway guard (6)
4 This led Mrs Gandhi to be a queen in her own country (6)
8 Not slow to voice an opinion (7)
9 Assemble for prayer (7)
11 Secures rent for one of a group of shops (5-5)
12 I'm a leader of Moslems (4)
13 Teachings that follow closely on a degree (5)
14 One is not expected to live on them (4,4)
16 In an electric oven it controls the roast, perhaps (8)
18 She's a fairy queen to the Spanish (5)
20 Prepare to put out with the turn of the tide (4)
21 Crows in waves (10)
23 Red vehicle goes to one of the pits (7)
24 Twice told of new point to be included (7)
25 Man enters another order (6)
26 Divided capital of songwriter (6)

DOWN

1 The third half? (5)
2 Ill-treatment (7)
3 Tough sister in trouble with social worker (9)
5 End of the line for a criminal? (6)
6 I'll leave things behind with hostility (3-4)
7 Red port for Michael, perhaps (9)
10 Until pool is improved there's contamination (9)
13 Dry-heated in order to lose moisture (9)
15 Uniform includes tanned belt for officers (3,6)
17 Seat of Empire (7)
19 Shy retiring sailor to flush when flustered (7)
21 Northerners one may meet in noisy taverns? (5)
22 Girl's measurements (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday June 17.

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

FRANCE (continued)

[illegible]

GERMANY

[illegible]

ITALY

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

SOUTH AFRICA

[illegible]

JAPAN

[illegible]

AUSTRALIA

[illegible]

HONG KONG

[illegible]

SINGAPORE

[illegible]

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO

Closing prices June 2

[illegible]

MONTREAL

Closing prices June 2

Sales	Stock	High	Low	Close	Chng
[illegible]	BombrdrA	[illegible]	[illegible]	[illegible]	[illegible]
174034	BombrdrB	$13½	12⅞	13	+ ⅛
15375	Cascades	$08⅞	08⅛	08⅞	
9122	DomTxtA	$15½	15	15	
10000	Memotec	$09⅞	09⅞		
118813	NatBk Cda	$14⅛	13⅞	14	− ⅛
18025	Noverco	$12½	12⅛	12½	+ ⅛
279414	Power Corp	$16⅝	16⅛	16⅜	− ⅜
22468	Provigo	$10	09⅞	09⅞	
8000	SteinbrgA	$40¼	39¾	40½	+ ¾
25170	Videotron	$18½	18⅛	18½	+ ⅛

Total Sales 6,451,652 shares.

INDICES

NEW YORK — DOW JONES

	June 2	June 1	May 31	May 30	1989 High	1989 Low	Since compilation High	Since compilation Low
♦Industrials	2517.83	2490.63	2480.15	2475.55	2517.83 (2/6)	2144.64 (3/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	91.12	90.75	90.52	90.69	91.12 (2/6)	87.35 (23/3)	–	–
Transport	1158.31	1156.53	1152.33	1156.05	1165.59 (26/5)	959.95 (3/1)	1165.59 (26/5/89)	12.32 (8/7/32)
Utilities	203.47	201.70	200.39	199.8	203.47 (2/6)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2530.88 (2504.23) Low 2492.46 (2469.67)

STANDARD AND POOR'S	June 2	June 1	May 31	May 30	1989 High	1989 Low	Since compilation High	Since compilation Low
Composite ‡	325.52	321.97	320.52	319.05	325.52 (2/6)	275.31 (3/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	372.99	369.46	367.84	366.31	372.99 (2/6)	318.66 (3/11)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	30.91	30.31	30.07	29.90	30.91 (2/6)	24.30 (3/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	181.49	179.63	178.85	178.11	181.49 (2/6)	154.98 (3/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	360.47	358.09	356.66	354.41	360.47 (2/6)	305.24 (3/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	451.63	448.32	446.17	444.21	451.63 (2/6)	378.56 (3/1)	455.28 (26/8/87)	54.87 (31/10/72)

	May 26	May 19	May 12	year ago (approx.)
Dow Industrial Div. Yield	3.38	3.35	3.43	3.68

	May 31	May 24	May 17	year ago (approx.)
S & P Industrial div. yield	3.02	3.03	3.04	2.94
S & P Indl. P/E ratio	13.53	13.46	13.42	15.35

TRADING ACTIVITY †Volume

Millions	June 2	June 1	May 31
New York	230.498	223.160	162.530
Amex	15.864	13.987	11.340
OTC	163.796	135.869	123.822

NEW YORK	June 2	June 1	May 31
Issues Traded	2001	1960	1948
Rises	1115	865	907
Falls	422	582	539
Unchanged	464	513	502
New Highs	293	169	112
New Lows	16	13	20

CANADA

TORONTO	June 2	June 1	May 31	May 30	1989 High	1989 Low
Metals & Minerals	3436.0	3385.8	3389.1	3382.7	3564.9 (6/2)	3207.5 (3/1)
Composite	3730.1	3719.0	3707.5	3698.3	3730.1 (2/6)	3350.5 (6/1)
MONTREAL Portfolio	1908.01	1901.88	1897.37	1888.66	1908.01 (2/6)	1677.48 (3/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
Texaco	2,199,100	49⅞	+ ⅝	Placer Dock	1,932,100	20⅝	—
USX Corp	3,643,200	36½	− ⅞	AT&T	1,909,400	36¼	+ ⅞
Eastman Kodak	3,501,500	47⅞	+ ⅝	Ford Motor	1,798,200	49⅝	+ ¼
Union Carbide	2,488,900	28⅝	+ 1⅛	IBM	1,615,700	110⅛	+ ⅞
Ramada Inns	2,007,100	13½	+ ⅝	Gen Electric	1,524,800	55⅝	+ ¼

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals — 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	June 2	June 1	May 31	May 30	1989 High	1989 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1524.8	1531.5	1530.0	1542.6	1583.7 (23/5)	1412.9 (7/4)
All Mining (1/1/80)	687.7	690.0	688.7	692.1	727.0 (26/1)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	(u)	329.48	327.90	326.33	329.48 (1/6)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6103.98	6099.23	6097.40	6106.67	6125.62 (29/5)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	312.73	310.46	308.21	308.57	312.73 (2/6)	275.49 (27/2)
FINLAND						
Unitas General (1975)	810.7	808.1	808.5	809.6	815.8 (18/4)	723.3 (4/1)
FRANCE						
CAC General (31/12/82)	481.2	477.6	475.8	477.1	481.2 (2/6)	417.9 (4/1)
Ind. Tendance (30/12/88)	113.7	112.7	111.9	112.0	113.7 (2/6)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	593.20	588.26	587.12	585.00	593.20 (2/6)	535.78 (27/2)
Commerzbank (1/12/53)	1760.8	1746.6	1743.7	1738.4	1760.8 (2/6)	1595.7 (27/2)
DAX (30/12/87)	1419.71	1413.00	1407.29	1403.17	1419.71 (2/6)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2675.38	2689.98	2743.87	2805.46	3309.64 (15/5)	2706.69 (3/1)
ITALY						
Banca Com. Ital. (1972)	612.19	609.30	612.08	610.85	620.30 (24/4)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	33667.42	33981.35	34266.75	34076.8	34266.75 (31/5)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2501.56	2518.21	2537.14	2522.59	2544.60 (8/5)	2366.91 (6/1)
NETHERLANDS						
CBS Tti.Rtn.Gen.(End 1983)	244.9	244.7	243.4	245.5	245.5 (30/5)	208.3 (3/1)
CBS All Shr (End 1983)	190.8	190.6	189.6	191.3	191.3 (30/5)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	634.34	635.65	638.63	648.68	665.61 (19/4)	467.17 (2/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1305.21	1292.94	1279.24	1275.17	1310.02 (17/5)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1391.0§	1377.0	(c)	1375.0	1639.0 (23/3)	1291.0 (15/2)
JSE Industrial (28/9/78)	2423.0§	2413.0	(c)	2415.0	2581.0 (28/4)	1961.0 (3/1)
SPAIN						
Madrid SE (30/12/85)	310.35	312.36	313.18	313.12	313.18 (31/5)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4018.9	4024.6	4030.0	4053.9	4053.9 (30/5)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	694.4	680.2	671.5	671.8	694.4 (2/6)	613.1 (3/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	501.4	500.8	499.0	519.0 (17/2)	491.2 (28/3)

§ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday June 2 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nissan	30.3m	1,650	unch	Daikin	23.4m	1,970	+80
Amada	28.4m	2,160	+80	Fuji Heavy	22.9m	1,080	+40
Toshiba	26.9m	1,460	−10	Kawasaki Steel	19.9m	971	−29
Furukawa Elec	25.3m	1,350	+20	NHI	18.8m	1,180	−10
Ebara	23.9m	2,290	+50	Navix Line	13.6m	1,160	−160

AMEX COMPOSITE PRICES

4pm prices June 2

[illegible]

4pm prices June 2

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
31½	21⅞	AAR	.44	1.4	21	403	u31⅝	31	31¼	
10⅝	8⅞	ACM n	1.01	11.		x131	9⅜	9½	9⅝	+ ⅛
11⅞	10⅛	ACMIn	1.26a	11.		789	11⅛	10⅞	11⅛	+ ⅛
10⅛	8½	ACM M	m1.01	11.		x295	9⅛	9	9	+ ⅛
11½	10⅛	ACM Sc	1.26	12.		909	10⅞	d10	10⅞	
10	8⅞	ACMSp	1.01	11.		328	9	8⅞	8⅞	– ⅛
17¼	10⅞	AL Lab	.12	.8	17	113	16⅝	16	16	– ⅝
4⅛	2⅞	AMCA	.12e	3.0	27	10	4	4	4	
6⅛	3½	AM Intl				3909	5⅛	5⅛	5⅛	– ⅛
23½	18⅛	AM In pf	2	9.1		12	22⅛	22	22	– ⅛
65⅞	40	AMR			7	6804	63⅛	62⅞	62⅞	+ ⅛
27	25	ANR pf	2.67	10.		603	25⅛	25⅛	25⅛	
24½	23⅛	ANR pf	2.12	8.6		800	u24⅞	24⅞	24⅞	+ ½
9½	3⅛	ARX				345	4⅞	4⅛	4⅞	+ ⅛
47	35⅛	ASA	3a	7.4		277	40⅞	39⅛	40⅞	+ ⅞
22⅞	15¼	AVX	.24	1.1	10	560	21⅞	21⅞	21⅞	+ ⅞
60⅞	43½	AbtLab	1.40	2.3	19	3090	u61	59⅞	61	+ 1⅛
19	15⅞	Abitibi g	1			514	18½	18⅛	18⅞	– ⅛
12	7½	AcmeC	.40	3.7		77	10⅞	10⅛	10⅞	
8	5⅞	AcmeE	.32	4.1	16	13	7⅞	7⅞	7⅞	
34⅛	20⅛	Acuson			25	867	32½	32⅛	32⅛	– ⅛
16⅞	14⅛	AdaEx	1.82e	12.		100	15⅛	15⅞	15⅛	+ ⅛
16⅞	7⅛	AMD				3932	10⅞	10⅛	10⅞	+ ⅛
43½	28⅛	AMD pf	3	8.8		87	34⅛	33⅞	34⅛	+ ½
10⅛	8½	Adobe				437	10⅛	9⅞	10	– ⅛
18⅞	16½	Adob pf	1.84	10.		45	18⅞	18⅛	18⅛	+ ⅛
21⅛	19⅞	Adob pf	2.40	12.		15	20⅛	20⅞	20⅞	
9⅛	6⅛	Advest	.12	1.7	17	88	7⅛	7	7⅛	+ ⅛
54⅞	42⅛	AetnLf	2.76	5.0	9	7121	u55½	54⅞	55⅛	+ ⅞
12⅞	12½	AfilPG n				10629	d13	12⅞	12⅞	
21	14½	Ahmans	.88	4.2	10	4006	u21⅛	20⅞	21	+ ⅝
4⅞	2⅞	Aileen			19	3	3½	3½	3½	+ ⅛
[illegible]										

Continued on Page 39

NYSE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous Page										
94	89½	PhE pf9.50		10.		z500	93½	92½	93½	+ ½
12⅝	11⅜	PhE pfR1.41		12.		37	12⅛	12⅛	12⅛	− ⅛
12	10⅞	PhE pfP1.33		12.		38	11⅝	11½	11½	− ⅛
75½	67⅛	PhE pfH7.85		11.		z10	74	74	74	−1½
11⅞	10⅝	PhE pfO1.28		12.		28	11⅛	11⅛	11⅛	
116¾	106⅞	PhE pfM15.25		14.		z300	112½	111¾	112½	− ½
97⅞	87½	PhE pfL9.52		10.		z220	94½	94½	94½	+1½
89½	81	PhE pfK9.50		11.		z480	u90½	90	90½	+ ⅞
76	66½	PhE pfJ7.80		10.		z610	u75½	75¼	75½	+1½
72	66	PhE pfI7.75		11.		z150	u73½	73	73	+1⅛
15⅞	12⅛	PhilSub	.94	7.1	11	81	13¼	13⅛	13¼	+ ⅛
140½	81⅛	PhilMr	4.60	3.2	15	7696	u141½	138½	141⅛	+2⅛
22¼	16⅛	Philpln	.52	2.4	14	545	22⅛	21½	21⅞	+ ⅜
19⅜	14⅞	PhlGl	.82e	4.8	8	1104	17¼	17	17¼	+ ⅛
24⅞	15⅜	PhilPet	.88	3.7	46	110	24½	23⅞	23⅞	
19½	9⅞	PhilVH	.28	1.5	14	156	19	18	19	+ ⅛
17½	8⅞	Phlcorp			9	43	17⅛	17	17⅛	
25¼	21⅛	PiedNG	1.60	6.6	10	78	24⅞	24⅛	24¼	
14¼	9⅛	PlerI 1	.12	1.0	17	6630	12⅛	11⅞	11⅞	− ⅛
9⅞	7⅞	PlgRg	.50a	5.5		229	9⅛	9	9⅛	
8⅞	4⅞	PlgPr	.06	.8	24	118	7⅞	7⅞	7⅞	− ⅛
26¾	11	PinWst	1.60	12.		4186	13¼	12⅞	13⅛	+ ⅛
48⅛	40¼	PitnyBw	1.04	2.3	16	4250	45⅞	44⅞	45½	+ ½
199	163	PitnB pr2.12		1.2		3	189	189	189	−4
22¾	13½	Pittstn	.20	1.0	16	740	20½	20⅛	20¼	− ⅛
14⅝	11⅞	PlcrD g	.30			1298	12⅞	12⅝	12⅞	+ ⅛
36⅞	24½	PlainsP	.10e	.3	38	82	34⅞	34½	34⅞	+ ⅜
14⅝	11⅞	Playboy				37	14⅛	13⅞	14⅛	+ ⅛
		PlutoC n				16321	21	20⅛	20⅝	
7¼	3⅝	PogoPd				425	8⅞	8⅝	8⅞	
44⅛	29	Polaroid	.60	1.5		3278	40⅞	40	40⅛	+ ⅛
36	18⅛	PopeTal	.60	2.5	8	905	23⅞	23⅛	23¼	− ⅛
8⅛	3⅛	Portec			38	20	8	8	8	
24⅛	20⅛	PortGC	1.96	8.0	12	613	u24½	23⅞	24½	+ ½
27¾	25⅛	PorG pf2.60		9.3		44	u27⅞	27⅞	27⅞	+ ½
38	27⅞	Potlch	1.04	2.8	9	293	37⅛	37⅛	37⅛	− ⅛
23⅛	19⅜	PotmEl	1.48	7.0	10	1072	21⅛	20⅞	20⅞	
39⅞	28	Premrk	.84	2.1	13	454	u39⅞	39⅛	39½	− ⅛
[illegible]										
69	58⅞	Xerox	3	4.7	18	3099	64½	63¼	64⅛	+ ½
44⅛	29⅝	XTRA	.72	2.0	15	179	35⅞	35⅝	35⅝	− ½
33	25	XTRA pf1.94		6.9		17	28	27⅞	28	+ ½
3⅞	2	Zapata				475	3	2⅞	3	+ ⅛
30⅞	18⅛	Zayre	.40a	1.4	197	3467	29⅛	29⅛	29½	+ ½
17	16¼	Zayre wi				81	u17⅝	17	17⅝	+ ½
29	16½	ZenithE			1051	2478	21	20½	20⅝	− ⅛
10½	8⅞	Zeninc	1.26	14.		109	9⅛	9⅛	9⅛	
2⅞	1	vjZenLb				460	1½	1⅞	1⅞	− ⅛
21⅝	16	ZenNtl	.84	4.6	9	86	18¼	18⅝	18¼	+ ⅜
19⅞	18⅞	Zero	.44	2.2	16	177	19⅛	19⅛	19⅝	
38¼	19¾	Zurnin	.88	1.9	18	516	38¼	38	38¼	
11¼	10	Zweig	1.07s	9.6		675	11⅛	11	11⅛	+ ⅛
10⅛	8⅞	Zweig n	.96	10.		1638	9½	9¼	9⅞	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

OVER-THE-COUNTER

Nasdaq national market, 4pm prices June 2

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						
WlvEx h		387	6⅛	6⅛	6⅛	
Worthg	.48	14 3150	21⅛	21¼	21⅛	+ ⅛
Wyman	.80	64 1764	17¼	17	17⅛	
−X−Y−Z−						
XL Dta s		20 1904	23⅛	22⅛	23⅛	+ ½
XOMA		928	18¼	17⅞	18	
Xicor		10 1325	8¼	8	8¼	+ ⅛
YelowF	.70	11 643	28⅛	27⅞	28⅛	+ ⅛
ZionUt	1.44	13	25½	24⅛	25½	+ ⅛
Zycad		1693	3⅝	3½	3½	− ⅛

The Business Column

Dilemma of giving the teams their due

The telecommunications company GTE has just introduced a new payments system at one of its US factories which attempts to overcome what could become an increasingly sharp dilemma for many employers: the tension between introducing more collaborative teamworking and performance related pay.

Many companies are increasingly introducing teamworking to break down traditional demarcation lines between skilled and unskilled, blue and white-collar workers. GTE is pursuing this approach not only on the shopfloor, but also in management.

The company's extensive employee involvement programme has led to the creation of project teams, problem solving teams, and cross-functional teams, incorporating managers, supervisors and shopfloor workers, as well as shopfloor teamworking.

Teamworking can produce a measurable increase in productivity through promoting flexibility between different grades of workers. Teams involving managers and shopfloor workers can apply a wider range of expertise to solving problems such as plant layout. The collaboration inherent in teamworking also breeds a loyalty and team spirit, which brings efficiency gains over and above flexibility.

Mr Bruce Carswell, GTE's vice president for human resources, says: "We have to involve people more in designing rules and fashioning objectives. From that involvement we get greater commitment. The whole idea of employee involvement and teaming will be vital to the way we work in future." Yet this imperative to raise efficiency and quality through teamworking has to converge with a second imperative: to reform payment systems so people are paid more according to their performance.

An atomised workforce

Most performance-related pay schemes, especially those introduced recently in the UK, link rewards to appraisals of an individual's performance. Taken to its logical conclusion individual performance-related pay would atomise the workforce rather than bringing it together in collective effort. Thus it could undermine the basis for the efficiency gains of collaborative teamworking.

Mr Carswell says: "With teamworking we are moving towards a situation where it will become increasingly difficult to isolate the individual contribution of a single worker; it will be more difficult for an individual on their own to make a dramatic difference to performance."

To overcome this, GTE is piloting a team-based payment system which is also linked to performance. Staff at one of its factories have been grouped into teams, which will be paid according to a competitiveness index rather than a cost of living index.

The team's pay is linked to how well it does in relation to cost and quality targets drawn up in relation to the company's main competitors such as General Electric.

The spread of teamworking should break down the traditional boundaries of collective bargaining. Pay deals struck for entire factories or companies could be replaced by payment systems linked to the performance of smaller work units.

This may create problems for unions. But it should also set union criticisms of performance-related pay on a new footing.

A modernising union movement could easily put itself on the side of efficiency by supporting the new collectivism of teamworking, and insisting that individual performance should play only a limited role.

The future of payment systems may turn on the debate between collective and individual approaches. But it is not simply a debate between the old collective approach of unions and the new individualistic approach of 1980s managers. The most important tension will be within new approaches to human resource management – between the new collectivism of teamworking and the new individualism of performance-related pay.

Charles Leadbeater

THE MONDAY INTERVIEW

The shift from hunter to prey

Guy de Jonquières talks to Rand Araskog, head of ITT

Listening to Rand Araskog, chairman and chief executive officer of ITT, it is sometimes easy to get the impression that he is a man on a moral crusade.

"It would be a little bit silly to say that I am puritanical," he says. "But I do feel very strongly about ethics in American business. I think that if business leaders won't be outspoken any more, for right and for ethics, they are making a mistake."

Such sentiments could hardly be in sharper contrast with the image which ITT projected to the world 15 years ago, when it was embroiled in damaging scandals over its alleged implication in Watergate and in the Central Intelligence Agency's efforts to unseat the Allende government in Chile.

But much has changed since then. ITT, which once seemed bent on endlessly expanding its worldwide empire by piling takeover on takeover, has been forced by financial adversity to make a series of asset sales which have slimmed it down to more manageable – though still substantial – size.

Furthermore, Mr Araskog, a West Point graduate with a reserved, slightly earnest demeanour, is out of a wholly different mould from Harold Geneen, the wily and manipulative conglomerateur who presided over ITT's headlong growth in the 1960s and 1970s.

Probably most important of all, Mr Araskog has discovered what it is like for a company to be turned from hunter into prey. The lesson was painfully learned in the mid-1980s, when he fought off two successive assaults by corporate raiders who appeared intent on taking ITT private and breaking it up.

Recounting the experience in a newly published book*, he rails repeatedly against the damage which, he believes, America's industrial economy has suffered at the hands of short-term financial markets and leveraged buyouts conducted by what he calls "conscienceless, occasionally corrupt, speculators."

Repugnant as Mr Araskog finds the results of the raiders' activities, it is their motivation which really galls him. In his eyes they are simply playing a giant game, aimed at satisfying their greed at the expense of managements and employees. His resentment at the unfairness of it all shines through when describing Jay Pritzker, the Chicago financier who raided ITT's shares in 1984.

"The Pritzker family fortune had been built by Jay's father, and Jay had known nothing but great wealth. I had grown up on a Minnesota farm in the depression days. I worked my way up the hard way, through government, Honeywell and ITT, and I resented the idea that a guy with inherited money could walk in and destroy the career I had built – and do it with nonchalance and indifference."

Too many people, he complains, have wrongly regarded the raiders as Robin Hoods: "They have benefited terrifically by attacking the establishment. So many Americans have basically believed that a lot of businessmen are not what they're supposed to be – that they're dishonest, that they're taking advantage or other than what they are representing."

Though Mr Araskog thinks the leveraged buyout fashion has probably passed its peak in the US, partly because of unfavourable tax treatment, he is equally scornful of hostile takeovers launched by *bona fide* corporate bidders. He worries that this trend is showing dangerous signs of getting out of hand in Europe.

"Maybe it's interesting fun to see Siemens and GEC going after Plessey. But when I first heard about it, I was appalled," he says. "Where is all this leading to? Is the same pattern of activity that we've had in the US going to start in Europe? I hope not, and I hope somebody stops it."

There is a certain irony in these strictures. After all, ITT's growth in its glory days depended heavily on charming the financial markets into supporting continued takeovers, albeit invariably friendly ones. Though Harold Geneen made much of supposed "synergy" between its diverse range of assets, his claim was hardly borne out by their patchy performance after acquisition.

Indeed, Mr Araskog's description of the problems bedevilling ITT after Mr Geneen stepped down in 1977 sounds curiously reminiscent of the ills which he attributes to leveraged buyouts: a ruinous mountain of debt, lack of actively committed management and no coherent strategy for developing the business. When Mr Araskog took over as chief executive in 1979, ITT was having to sell assets just to pay dividends.

PERSONAL FILE

1931	Born Fergus Falls, Minnesota; educated US Military Academy and Harvard University
1954	Defence Department, Washington
1960	Director of marketing, aeronautical division, Honeywell
1971	Vice president and group executive, ITT aerospace, electronics and energy group
1979	President, chief executive officer, ITT
1980	Chairman, ITT

they're mis-advertising products."

"Every time a raider pulls off a deal that makes him a lot of money, it grows a little more. And it hurts. Most American chief executive officers are pretty darn ethical and moral people. They may not all be 100 per cent efficient, but I don't believe 99 per cent of them sit around figuring out how to try to deceive or do something

'It would be a little bit silly to say that I am puritanical'

On top of all that, ITT was burdened with a bloated bureaucracy. Mr Araskog recalls that one executive "was in charge of researching food on the Queen Elizabeth II, while another was charged with seeing how many places in the world he could visit and still be reached by telephone."

Mr Araskog concedes that the earlier excesses of the conglomerate movement may have contributed to the emergence of leveraged buyouts. While critical of the Geneen style, he remains doggedly loyal to Geneen the man, whom he depicts as a lonely and vulnerable figure towards the end of his reign.

Nor, he insists, did the threat of takeover give ITT any added incentive to put its house in order. It was already shaking up its management and had decided to sell off $1.7bn of assets when the threat materialised, though at the instance of one of the raiders it brought forward slightly the announcement of the planned sale.

None the less, Mr Araskog has since revealed that in the heat of the battle ITT did begin what seemed suspiciously like a search for a white knight. It discussed possible mergers with two US computer companies, Burroughs and Sperry, (which themselves later *merged to form Unisys) before* flirting briefly with the office systems supplier, Wang. None of the talks got anywhere, partly because ITT felt it was bargaining from a position of weakness.

Mr Araskog recalls with some distaste how the attitude of Michael Blumenthal, chairman of Burroughs, changed as pressure on ITT mounted. "When we first talked, it was before Irwin Jacobs (who staged the second raid on ITT) had bought his stock. But near the end, Blumenthal was a very different man. He was no longer so friendly and nice, he was really high pressure and not much different than Pritzker had been."

Mr Araskog also insists that ITT would have found it much harder to negotiate the sale of a controlling share in its telecommunications businesses to CGE of France in 1986 if it had still been under a takeover threat. "Georges Pébéreau (former head of CGE) is a good friend of mine. But if Georges had been thinking that we had those raiders in there, I would never have got such a good price."

Having struggled free from the raiders' embrace and buoyed by recent improvements in profits, where does ITT head now? On Wall Street, the company is felt to lack a clear longer-term direction and some analysts would like to see further divestitures.

However, Mr Araskog says that, except for Sheraton hotels, there is no division which could be sold for a high enough price to compensate for its contribution to profits and cash flow. "And I haven't been able to make any sense personally of selling Sheraton," he says. "You can get into a position of saying, look, if I'm going to sell one part, why not sell the whole place? I think ITT as a corporation makes sense."

Yet its conglomerate structure looks curiously out of tune with the times. When many other companies have concluded that more is to be gained by concentrating on a few, tightly defined core activities, what is the logic of keeping under one corporate umbrella nine businesses as diverse as hotels, insurance, pumps, automotive components and pulp and paper products?

Mr Araskog replies that being part of the ITT group enhances the visibility of many of its businesses, that there are savings to be made in sharing corporate services and that central management has shown that it can contribute to the performance of the divisions. "I like to have the power that I have, I like to have some balance," he says.

In any case, he argues, fashions in corporate structure are notoriously fickle: "In the 1960s and 1970s you put it together; in the 1980s you tear it apart; and then in the 1990s, you put it all back together again."

What particularly irks him is that some critics who cast doubts on ITT's ability to run a wide range of businesses also laud the virtues of leveraged buyouts. "How come, if you're private, you can manage anything, but if you're a public corporation you are supposed to sell off everything except one line of business?" he asks. "To me it doesn't make any sense."

* *The ITT Wars; published in the US by Henry Holt; $19.95.*

The drawbacks of electronic tagging

JUSTINIAN

Britain's Home Office is poised to inject a mechanical gimmick into the body of penal affairs. In a vain attempt to find a solution to the country's bulging prison population, an experiment is to begin shortly to test whether electronic tagging might provide the courts with an additional power to keep offenders out of prison.

The Government's proposal, which first appeared in a green paper in 1988, is designed to subject selected persons to the process of "tracking." The offender is ordered to wear a small water-proof electronic monitor the size of a small calculator around the neck or underclothing. The monitor emits silent coded signals thrice hourly to the nearest cellular radio station, and thence to a central computer.

The system is based on cellular "cells," each covering an area which ranges from a quarter of a mile to two miles, depending on the urban nature of the area. The presence of the tag-wearer is monitored to these cells. The tag-wearer's mobility is thus restricted to a given number of cells, in order to facilitate access to work and to other facets of a normal pattern of life.

If the tag-wearer moves outside an authorised cell, the tag will emit audible signals and be noted simultaneously by the central computer. The essence of the device is the restriction on the tag-wearer's movements than would traditionally be the case of an offender on probation or on parole licence.

The proposal has, predictably, found no favour with penal reform groups. It is characterised as imposing an element of prison-like conditions into the community without any corresponding likelihood that it would reduce the numbers of persons sent to prison. More critically, the electronic tagging is described as no more than a modernised form of the ball-and-chain.

Unless Parliament were to restrict severely the range of persons who are liable to be imprisoned, electronic tagging will do nothing to assist the process of reducing the prison population. Some people, on the other hand, who are more sanguine about the prospects of effecting a welcome reduction in the use of imprisonment by the courts, are also less worried about the civil liberties aspect of electronic tagging.

Two academics from the University of Kent have recently conducted a simulated study of electronic tagging as a sentencing option.* The participants in the simulated exercise were, unfortunately, not judges or magistrates, but were individuals recruited from the university, a local sixth-form college, and friends and families of those who had already taken part in the exercise.

A crucial distinction in the use of electronic tagging that emerged from the findings was the imposition on convicted offenders of a tag and on the remand population. Tagging was viewed as much less draconian than a remand in custody, but a more appropriate form of freedom than bail for those whose crimes were sufficiently serious. Tagging as an optional sanction for offenders, on the other hand, was not favoured as a punishment. It was none the less favoured as an alternative to either bail or remand in custody. Tagging was perceived as more appropriate an option for those awaiting trial than as a straightforward penal sanction.

The researchers' conclusions were broadly twofold. If tagging were to be made available and used to any great extent, as a sentencing tool for courts, it would operate as a substitute for both imprisonment and non-custodial penalties. It would particularly replace probation, with its supervisory and intrusive component. This would produce little or no relief to the pressures on the prison system, and would tend to weaken the pronounced benefits derivable from an enhanced probation service.

The second conclusion was that tagging as an alternative to the "leniency" of unconditional bail, or the preferred alternative to conditional bail, or as the alternative to the "harshness" of imprisonment for weeks or months pending trial, would appear to confer a real benefit on the hard-pressed prison system. But not otherwise.

The researchers speculate that further research might indicate tagging as a highly favoured option for convicted offenders, if it were viewed by Parliament and by sentencers as an acceptable form of punishment. There lies the rub. The researchers do not take cognisance of the potential risk that electronic tagging offends a provision of the European Convention on Human Rights. Article 3 absolutely forbids any inhuman or degrading treatment or punishment. If electronic tagging could be seen to operate beneficially to both the offender and to the generality of crime prevention, it might escape the clutches of a legally guaranteed freedom.

Contemporaneously with the Home Office proposals for Punishment in the Community, of which electronic tagging was one possible innovation, the Secretary of State for Scotland, Mr Malcolm Rifkind, warned against such developments when he addressed the Howard League in Scotland. Merely increasing the *number* of alternative disposals does not bring about any significant reduction in the use by the courts of imprisonment. New disposals are often used for those who in any case would not have been sentenced to prison.

"That is why," concluded Mr Rifkind in his address to the Howard League, "our main objective is not widening further the range of non-custodial penalties, but our strengthening of the non-custodial disposals already available to the courts." On that basis, probation, enhanced by more resources from central government, and not electronic tagging, must be the preferred option.

* *Howard Journal of Criminal Justice, May 1989. Published by Basil Blackwell for the Howard League for Penal Reform.*